DEVALUATION AND AFTER

VICISSITUDES OF THE FOURTH PLAN

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Volume One

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PREFACE

During the last eight years, I have had the good fortune of co-operation with the Wesley Press. 'A Decade of Planned Economy' was published in 1961, 'Fifteen Years of Democratic Planning', Volume I, was released in 1963 and Volume II, in June 1965. Soon after the devaluation of the Indian rupee in June 1966, my publisher and I agreed on writing and publishing a new book under the title 'Devaluation and After: Vicissitudes of the Fourth Plan'.

The Wesley Press commands an international reputation for efficiency and finish, but, unfortunately, there were some breakdowns necessitating repairs at Calcutta and London. These repairs involved considerable delay in the printing of the book. Due to this regrettable but unavoidable delay, the publishers agreed with me that the publication should be in two volumes, the first to contain 14 chapters in three sections, namely, 'Devaluation', 'Planning' and 'Finance' and 12 appendices (to be published immediately), and Volume II to be issued later with chapters 15 to 36 in two sections, namely, 'Production and Exchange' and 'Social Engineering'.

It is common knowledge that a peaceful economic revolution (including the green revolution) is permeating the entire country at an accelerating pace and, as such, numerous observations and suggestions as also statistics in the text would have to be read along with the context. For example, in Chapter V, a revaluation of the rupee by stages was recommended, but that was a short-term suggestion. By now, economic conditions have undergone long-term adjustments, and the suitable policy would be to guard against further devaluation: revaluation cannot even be thought of at present. Non-traditional exports have shown remarkable improvement in spite of the Viet-Nam and West Asia wars, and it may not be surprising if by 1974 India attains a stable position with regard to her balance of payments. An attempt has been made to provide latest information and views through appendices which supplement the original chapters.

Internationally, disequilibrium in balance of payments has been characteristic of different countries, a few enjoying continuous favourable balances, many worried by accelerating deficits. Revaluation there was in slight measure in West Germany* and the Netherlands, but devaluation has been a common feature. In India and in Britain, devaluation was declared immediately after official denial. (After the recent devaluation of the British currency, the new official exchange rate is Rs 18.08 per pound sterling.) With regard to the U.S. dollar, there has come about an unofficial devaluation—depreciation going sometimes as high as $42 per fine ounce of gold, the official rate being $35. In France, in spite of

* In West Germany, a second upward revaluation by 8½ per cent became effective from 27-10-1969, the Mark appreciating from 4.00 to 3.66 per U.S. dollar.

sticking to the gold standard, the franc was devalued for the eighth time after the Second World War, by 12½ per cent with effect from 11 August 1969. In Argentina and a few other South American countries, as also in thirteen African countries, devaluation was resorted to for different reasons and in different phases. The 'Paper Gold' scheme that has just been adopted by the International Monetary Fund and the Special Drawing Rights under the scheme (amounting to $9.5 billion during the next three years) may render devaluation less frequent hereafter.

Alas, it is not merely the devaluation of the rupee in foreign exchange terms, but a detestable variety of devaluation all round. The internal purchasing power of the rupee is going down precipitously, but even the new Planning Commission has nothing definite to suggest for stabilising the rupee for the Fourth Plan (1969-74) to proceed on firm ground. Business efficiency and public morality have been degenerating. The nation is bankrupt in statesmanship which could stem such unhealthy trends. To save their faces, the authorities are taking shelter behind the smokescreen of Gandhi Centenary Celebrations, co-existing with different specimens of violence in all parts of the country to attain different objectives, and fads like Prohibition. The international status of India has slided down from third perhaps to the tenth among Asian Powers, and the Ivory Tower personnel at Delhi are winking at regional manoeuvres sidetracking India. The real National Income is showing very slow growth, the *per capita* figure positively retrograding on account of the population explosion. For all this, the party in power and its power-oriented policies have been the 'villain of the piece'! In order to cling to office against growing public dissatisfaction, the party has thrown to the winds real national interests by catching at votes through high procurement prices for foodgrains, impossible high wages in agriculture and industry, higher and still higher salaries and allowances for Government servants —all leading to galloping inflation galloping still faster! Men have changed in the Planning Commission, but it is all old slush in new bottles. Protected drinking water for villages or steel, foodgrains or mineral oil, clothing or nuclear advance— in all these respects, the schedule of priorities has been woefully wrong, even criminal, and even the accepted schedule of priorities is being respected in the breach rather than in the observance, almost every month. In all seriously thinking minds, the crucial question *today* must be—where shall we be in 1974—with a burden of affluence as in West Germany, or with a deadweight of poverty, disease and political restlessness as in Indonesia? The only consolation appears to lie in imbibing the basic tenet of Indian philosophy, *fatalism*.

The Finance Minister could not have forgotten the basic fact that more than half the population lives at a standard of consumption much below the subsistence level, and, yet, in the name of curbing personal consumption for augmenting savings for investment, he has almost cruelly famished the poor man in the street by heavy excise duties on essential commodities and services. Additional taxation, which amounted to Rs 270 crores in the First Plan period, soared up to Rs 1,051 crores during the Second Plan period, and on to Rs 2,892 crores during the Third Plan

period. The Fourth Plan target is Rs 3,065 crores (First Draft) and Rs 2,709 crores (Final Draft). Most of this money has gone for Government consumption in the shape of defence, civil services and other varieties of non-plan expenditure, and *not for investment*! 'Robbing Peter to pay Paul' would be all right provided Peter was the rich man and Paul was the poor man. But in present-day distribution of taxation and Government expenditure, the case is just the opposite: poor Peter is being fleeced to add to the luxuries of Paul!

The C.S.I.R. has wasted hundreds of crores on Research, but with little practical use in production and social welfare. Import substitution and cost reduction have been conspicuous by their absence, and idle capacity has been the characteristic of Indian industry. Earthquakes and cyclones comprise the fury of Nature against which science has been able to do little to protect human life and crops, even in countries like Japan, but here in India, even after twenty-two years of Independence and Planning, the sense of security has weakened. Floods in Assam and Bihar, drought in Tamil Nadu and Rajasthan, railway and river boat tragedies in Andhra Pradesh and Bengal, hundreds of deaths on account of heat waves and cold waves, have been almost annual phenomena, and such calamities have been glossed over with condolence telegrams and *ex gratia* grants ranging from Rs 250 to Rs 1,000 per head, dead or injured. A comprehensive railway passengers insurance scheme was suggested by me in 1961 in my book *A Decade of Planned Economy*, but no attention has been paid to it or to crop and livestock insurance. In a high majority of villages, there is no protected water supply—not even unprotected. And the dream of the planners is to achieve the target of rural water supply up to a hundred per cent by the end of the Fourth Plan! This is as much a mirage as the universalisation of elementary education and adequate food supply by 1974! There is no National Register of workers nor is there any scheme for covering every rural family with life, accident, health and unemployment insurance. The Life Insurance Corporation of India has developed into giant proportions, but with little energy or vision. All this leads to the sad thought—will India be able to achieve present Japanese standards of production and social welfare even in the next fifty years!

The Bangalore Ten Point Programme came none too soon, but nationalisation of fourteen major Indian commercial banks (covering 85 per cent of deposits by the public) on July 19, 1969 was a premature move. There is no doubt that this measure is fraught with greater dangers than the Reorganisation of States on November 1, 1956, in spite of superficial attractions. In fact, the potential risks involved in this measure cannot be estimated even approximately. The experience of the Life Insurance Corporation of India should have warned the Prime Minister against Bank Nationalisation. It is most astonishing that cognate institutions like the Planning Commission, the Reserve Bank of India, the National Credit Council and the Banking Commission were summarily slapped on the face like schoolboys, and it is impossible to imagine the allocation of functions as among the new Advisory Councils, the Custodians, the Reserve Bank of India and the National Credit Council. The Labour Government in Britain has

not nationalised banking although Steel, Coal and Social Insurance have been taken under Public Control, for obvious reasons. Commercial banks in India did quite well in implementing the new policy of social control, but the wise policy of 'hasten slowly' was disregarded. Again, the unlimited promise of Indo-American financial and industrial joint ventures has not merely been dampened, but practically put in cold storage. 'Creditworthiness' was based on immovable property in 1937, on the value of the prospective crop in 1954, but now the Prime Minister wants the basis to be the 'purpose'! A sun-burnt Co-operator myself, I can say confidently that the purpose is a 100 per cent good in all applications for loans, but there is all the difference between 'purpose' and 'performance'! Very soon, a new basis may be laid down of 'sympathy' or 'need': banking cannot take over the work of 'relief and rehabilitation'. Shri P. K. Talwar's 'Potential viability' base is more nebulous than nebula itself: agriculture is an extensive industry and guards and seals of banks cannot apply to agricultural crops on thousands of square miles of arable land.

I am grateful to Shri K. A. Korula, Superintendent, Wesley Press, Mysore for unfailing co-operation in spite of odds. I received valuable assistance in this work from several friends, to whom I am grateful. I take this opportunity to record my deep appreciation of the invaluable co-operation rendered by Miss K. S. Sarojamma, Miss K. R. Radha, my wife, Anasuya Devi, and G. N. Seetharam (my grandson), but for whose laborious and enduring assistance, this volume should have taken much longer to reach the hands of my readers. To my friends, S. S. Rangachar and O. P. Premanandan, I am profoundly indebted for checking the proofs at several stages, side by side with my personal staff and the editorial department of Asia Publishing House.

Hyderabad, India
15th December 1969

S. Kesava Iyengar

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SECTION I

DEVALUATION AND AFTER

CHAPTER I

INTERNATIONAL LIQUIDITY AND DEVELOPING COUNTRIES

WORLD BANK'S CALL FOR FREE CAPITAL MOVEMENT

A CALL FOR the complete liberalisation of international capital movements and a suggestion that the OECD* examine the EEC† Commission's Report on the development of a single European capital market were the main resolutions which emerged from a conference of eminent international bankers. The meeting was sponsored by the Atlantic Institute and the Business and Industrial Advisory Committee of the OECD, and its recommendations are now to be considered in detail by Working Groups set up in both these organisations. If, as the conference backers hope, they are formally adopted by the BIAC and the National Industrial Federations which comprise its membership, the Cannes Conference will have given birth to something approaching an international banking pressure group. Nevertheless, the recommendations passed fell well short in both scope and force of those originally proposed by the Conference Directorate, largely because some Continental bankers, probably the French, were afraid of offending their governments. The argument underlying the final *communique* is that European industry in particular now needs access to rapidly expanding supplies of capital if it is to expand at a desirable rate and make the most of modern technical discoveries. To this end, the Conference accepted a series of proposals for developing existing national capital markets on the one hand and, on the other hand, securing a greater degree of integration among them. One way of improving national markets would be through Government measures designed to stimulate contractual savings. But the Conference also called on Governments to restrict their own demands so as to leave a bigger margin of resources available to the private sector. By calling for the international capital markets to be tacked to the OECD plane—the bankers pinpointed the danger of fresh divisions and distortions arising through a different approach to the question in the two trading *blocs*. Among the steps recommended were the progressive dismantling of foreign exchange regulations, harmonisation of taxes on interest and dividends, and free access for foreign issues to all markets and an end to double exchange rates systems.

INCREASING FLOW OF AID VITAL TO DEVELOPING COUNTRIES

A U.N. Study has shown that although developing countries are making great efforts to expand their exports and to develop import substitutions, increasing flows of foreign aid in the foreseeable future will be essential even to the fulfilment of their minimum programmes of development. The U.N. Study has, therefore,

* OECD : Organisation for Economic Co-operation and Development.
† EEC : European Economic Community.

warned that, if the total flow of export credits advanced to the developing nations diminishes, the growth of these countries as also of international trade will be retarded. The widespread concern felt among exporting countries regarding 'unfair competition' in the provision of export credits and its degenerating, into a 'disruptive race' cannot be isolated from the broader problems arising from the fact that the total volume of capital currently being made available to developing countries is already inadequate to meet their financial requirements. The Study points out that the search for a solution to export credit competition must be undertaken with reference to the accepted need for a sustained, and indeed increasing, net flow of financial resources to developing countries. No matter how serious the limitation of export credits may be as a means of financing economic development, in terms of their inappropriate maturities, high cost and sometimes even the over-pricing of the goods, they have become an important source of external financing for developing nations. If it is, therefore, intended that the total flows should not diminish, so that the growth of the developing countries and of international trade is not retarded, restraints on the granting of Government-guaranteed export credits would presumably be compensated by an increase in the volume of aid credits unassociated with the provision of other forms of long-term financing.

The fact remains that a number of advanced countries look on medium-term and long-term export credits as a major means of assisting the developing nations and find it easier to grant export credits than aid credits, because, in their view, export credits—particularly long-term—have growth stimulating effects which benefit their own domestic economies as well as having aid features which benefit the developing countries. Any measures by the advanced nation which would also reduce the flow of their capital goods exports are thus likely to appear as unattractive to the latter as to the former. An increase in aid credits or the provision of alternative forms of financing whose repayment periods would be more appropriate for economic development purposes than those of even medium-term and long-term export credits, might also help to alleviate the excessive debt-service burdens of developing countries, which, in recent years, have aroused fear of spreading liquidity crises. This problem of indebtedness arising from export credits has two main aspects—costs and maturities. The cost of export credits remains relatively high, and the longer the maturity the heavier the total interest burden. The Study has pointed out that in countries like U.K., France, Japan and Italy, Government facilities in the form of financing or refinancing funds and interest subsidies make it possible to offer export credits in excess of five years at interest rates lower than market rates. But since such facilities, while falling within the framework of export promotion programmes, are often granted for the purposes of helping developing countries, they confer upon these credits a certain aid character which may be considered susceptible of having a trade distorting effect. On the other hand, abnormally low export credit interest rates might reduce the commercial banks' willingness to commit their own funds to export financing and might result in reduced commercial bank participation in export

financing or in pressure on central banks for increased refinancing facilities. It is therefore suggested that it might be worth while to study the possibilities and effects of generalising the system of subsidised export credit interest rates. Progress in that direction would undoubtedly be welcomed by developing nations, although it would not constitute a substitute for directly increasing their purchasing power by increasing their own export earnings. Yet, there remains a gap between the capital goods requirements of developing nations and the volume of such goods they can acquire through export credits on the one hand, and export earnings, aid credits and grants on the other. Even though credits can be expanded beyond what might otherwise be offered by tying them to procurement in the grantor country, there are rather severe limitations both on the additional amounts which can thus be made available, and on the net benefits which such tied aid brings to the developing country. Thus the problems which have arisen from the prevailing system of financing international trade in capital, mainly over-indebtedness of the developing countries on the one hand and possible trade distortion on the other —are highly complex. If the developing countries' need for an expanding inflow of capital goods is well matched by the advanced nations' interest in expanding their sales of these goods, the U.N. Study Team thinks that these problems could be coped with.

DEVELOPING NATIONS' FOREIGN DEBT PROBLEM

A FIVE POINT recommendation to help bring the commercial debt problems of less developed countries under control has been prepared by the World Bank staff. The recommendations include the creation of a special secretariat within the Organisation for Economic Co-operation and Development (OECD) for the exchange of credit information among the industrial countries and the co-ordination of their credit policies. OECD officials are looking with favour on the proposal. The World Bank Report has been submitted to the United Nations Trade and Development Conference (UNCTAD) at whose request the Study was undertaken. The report focusses on the serious debt problem brought on by less developed countries contracting an excessive amount of suppliers credits—usually credits of one to eight years duration extended by exporters in the industrial nations. About one-third of the annual debt repayments of the less advanced countries of $1.4 billion, represents supplier credit service charges, according to the World Bank. Altogether, the less developed nations are estimated to owe more than $7 billion in suppliers' credits, with 10 countries—Argentina, Brazil, Chile, Peru, Mexico, Ghana, Nigeria, Egypt, Korea and Yugoslavia—accounting for the bulk of the debt. Although the industrial nations generally recognise the supplier credit problem, the World Bank Study makes it clear that they have made very little progress in agreeing on common rules for the issue of credit or credit insurance and guarantees. In a few instances, the International Monetary Fund had taken the initiative by conditioning its aid on a country's curbing the use of supplier credits.

Supplier credit obligations also get an occasional hard look by the industrial creditor nations when a developing country's debt hits crisis proportions, and a

re-scheduling is arranged. The basic recommendations of the Bank Study are: (*i*) More detailed reporting of supplier credits by both creditor and debtor countries. (*ii*) Tighter controls over supplier credit, and rationalisation of indebtedness by the developing countries, including the pooling of credit requests through local development finance companies. (*iii*) Closer co-ordination of supplier credit policies by the industrial nations is recommended, possibly through OECD, to forestall excessive indebtedness. (*iv*) Formation of *ad hoc* groups to examine supplier credit situations in individual debtor countries and further use of existing consultative groups to manage supplier credits, is also recommended. (*v*) Countries which have incurred excessive supplier credit obligations and greater private bank participation, should help importers secure their best purchases.

AN INTERNATIONAL CREDIT POOL

A WORLD BANK Study on suppliers' credits and credit insurance calls for 'some new kind of quasi-permanent co-operation among the creditor countries'. Although there are numerous organisations in creditor countries concerned with export credit and export credit insurance, 'none seems to be adequate for the type of co-operation required'. The Study concludes that action is needed most urgently along two principal lines. Firstly, commercial and financial practices must be harmonised as far as the technical aspects of the transactions are involved. Secondly, purposeful policies should be devised to anticipate and forestall some of the more disturbing tendencies inherent in finance of the export credit type. The Study was requested by the U.N. Conference of both supplier and receiver countries. The supplying countries are chided for not taking the lead in formulating policies for private export credits, intervening only to offer credit guarantees to their own exporters or to arrange re-scheduling of debt payments. In the receiving countries, on the other hand (usually the developing countries), 'there is a great need for improvement in the administration of external debt'. The Study urges that developing countries should show particular restraint in processing proposals for suppliers' credits destined to finance activities which are made profitable by the maintenance of import restrictions. One of the chief weaknesses of the present system according to the study, is in collecting and disseminating information, chiefly about the developing countries' indebtedness. The Study's first recommendation is that complete information of this nature should be collected and made available and that indebtedness on suppliers' credits should be viewed in the framework of a country's total indebtedness, both in the public and private sector. The reporting systems already in use by the World Bank, the International Monetary Fund and the Organisation for Economic Co-operation and Development, could be useful in this context. While the OECD is suggested as the appropriate forum for reaching agreement among creditor countries on common principles for exports credits and insurance, the Bank also proposes that a permanent secretariat be set up, organised either by the creditor countries themselves or by international institutions.

U.S. DOLLAR AS RESERVE CURRENCY

A LEADING American banker recently defended the continued use of dollars as a reserve currency and criticised countries which advocate an increase in the price of gold because it is in short supply. The Chairman of the United States Federal Reserve Board of Governors told the Overseas Bankers Club that it was to be expected that many countries would continue to find it useful and profitable to hold a substantial part of their reserves in the form of dollar balances. 'We in the United States believe it is a matter for individual countries to decide whether or not to hold dollars in their reserves at all, and whether or not to accumulate dollars when their reserves increase. But we are naturally sensitive about proposed innovations in the international monetary system which would place obstacles in the way of their doing so, or would actually give countries an incentive to switch their reserves out of dollars. This does not mean, however, that we expect gold no longer to play a role in international commerce or finance. On the contrary, we expect gold to continue serving the international payments system as reserve asset and to continue serving commerce as a useful commodity. Gold is a scarce metal and there are those who say its scarcity could be remedied by increasing its official price. They are viewing gold as a commodity rather than as a measure of monetary value and a monetary reserve asset. Those most vocal about gold as a monetary asset should stop thinking of gold as a commodity whose price must move with the general price level. An increase in the price of gold is completely unacceptable, a view which is shared by almost all the world's governments and central bankers'.

'PAPER GOLD'

THE FIRST joint meeting of the executive directors of the International Monetary Fund and the deputies of the Group of Ten ended recently on a surprisingly optimistic note. It was described as an informal meeting intended to ascertain the views of the participants on the problem of creating a reserve currency to supplement gold. It ended in the consensus that if such a reserve is created, it will be as good as gold in its acceptability and will be available to all members of the Fund without discrimination on agreed rules. The principle of universality was strongly stressed by India in company with other developing countries. From all accounts, the battle has been won. The danger of an unequal plan was noticed when the Group of Ten issued their *communique* in July 1966. They have now conceded that liquidity is the concern of all countries and all must share in the creation, distribution and management of the new reserve currency. This meeting marked the beginning of the participation of developing countries in the discussion on liquidity, so far confined mainly to the Group of Ten. A consensus was also reached that the distribution of the new reserve will follow very closely, though perhaps not precisely, the distribution of existing quotas in the Fund.

Again, there was agreement that the creation of new reserves, sometimes called 'paper gold', will be aimed at meeting the 'global needs' for additional funds to finance the payment of bills. The decision that additional reserves are needed will be made on the basis of long-term needs rather than with any idea of combating short-term down-turns in world economic activity. The Managing Director of the Fund said that the result of the meeting 'had exceeded our most hopeful expectations'. But he still thought it would be unreasonable to expect ratification at the I.M.F. meeting in Rio de Janeiro next September. He expected that the Report to be presented there would represent agreement 'on the general line' that the 'paper gold' plan would take. The next joint meeting will be held in London. It will be followed by another in Washington. The 'paper gold' the 11 richest nations have created to relieve the problems of international liquidity is likely to be ready for use in under two years. The Finance Ministers of the Group of Ten and Switzerland who met in London during the last week of August 1967, announced a new international reserve to supplement gold, dollars and other reserve currencies which are not expanding at the rate in which international commerce is growing. The stringency of international liquidity is severe enough to cause a serious world-wide depression. Against this sombre monetary backdrop, the London decision is being hailed as the most important development since the Conference in Brettonwoods. The London resolution of the 11 richest nations will be presented to the I.M.F. at Rio de Janeiro in September.

Since the differences between the Anglo-Saxons and France over gold prices have so far been the greatest single obstacle to an international accord on liquidity, the London decision to which both America and France are a party is expected now to receive a large measure of support at the next I.M.F. meeting. If the scheme is adopted by the I.M.F., the Charter of the world body would be modified and member countries like India would have to legislate to give legal sanction to this new form of reserve backing for their respective currency. The additional drawing rights created globally under this scheme is to be fixed by the international body, and each unit of extra drawing would be expressed in gold units such as a gold dollar.* Similarly allocation of the new asset globally has not yet been decided. But the London resolution of the Group of Ten lays down that over any five year period, a member's net average use of the asset should not exceed 70 per cent of its allocation. In addition to the new reserve proposed to be created under the London scheme, the central banks of the Group of Ten will continue their existing exchange arrangements whereby all short-term monetary upsets caused by adverse balance of payments or speculative swings in the exchange rates of their currencies are met by short-term credits offered to the affected central banks by the others.

* Under the new paper Gold Scheme, special drawing rights might be created by the International Monetary Fund to the tune of U.S. $1 or 2 billion. Indias drawing rights might comprise additional 3.7 per cent of the present drawing rights or U. S. $37.5 million.

INTERNATIONAL LIQUIDITY AND THE 'SCARCE CURRENCY' CLAUSE OF THE I.M.F.

THE POUND continues to hover at or below $2.79 in the London spot market. But it was a manoeuvre with ominous undertones. The ability of the dollar to survive devaluation of the pound was uncertain, and yet at the same time, the United States had nothing left but flattery with which to sustain the pound. Of course, it may well be that the autumn will see a rapid improvement in the British trade figures. That, coupled with evidence of the British Government's willingness to stare down recalcitrant Trades Unions, could lead to an impressive turn-round in sterling's fortunes. But already, it is certain that Britain will be contributing substantially next year to the climate of deflation gathering over the industrialised countries of the Northern Hemisphere. And, as things stand at present, any pressures that are switched from the pound are likely to be concentrated on the dollar. For, with the prospect of $2,500 million U.S. balance of payments deficit, there are signs that the credibility of the dollar as a reserve currency is wearing thin. This is just the trouble. During his trip to Washington, Mr Wilson speculated publicly about the possibility of closer links between pound and dollar. Unfortunately, the two currencies are almost inextricably intertwined as it is. Both are reserve currencies; both are trading currencies; both are backed by inadequate reserves and chronic balance of payments deficits. Admittedly, the U.S. reserves are still the largest in the non-communist world, but they are falling fast, and are no longer adequate to repay the dollar balances of foreign central banks. Thus it is that all too often, in battles to boost the pound, the recipient country converts them into gold. So the pound is not only the dollar's 'first line of defence': it is also its exposed flank. The central bankers are joining the ranks of the gold hoarders.

The orthodox argument advanced by European central bankers is that 'liquidity' gold, acceptable reserve currencies and credit are only needed to finance deficits. Hence, if the deficits are eliminated, existing supplies of liquidity would be entirely adequate and the Anglo-Saxon clamour for additional liquidity is no more than an attempt to avoid the necessity of balancing the books.

In an ideal world, no doubt, each nation would precisely balance its account; or at least a cut-back in spending by deficit countries would be offset by an increase in spending by surplus countries. This is not what happens. On the contrary, the surplus countries of Western Europe are now busy deflating. Hence, if they succeed in forcing the British and American Governments to balance their accounts, there is every likelihood of a slump in world trade. If they fail, then the pound and the dollar will soon cease to be acceptable as supplements to gold in world payments transactions, and in the end the result will be much the same. There are two possible escape routes from this impasse. One is an increase in the world price of gold. This would admittedly help the wrong people—the rich countries of Western Europe—most. But it would at least alleviate the worst strains of the present situation (national reserves would be worth more in terms of what they could buy). Unfortunately, there is no reason for thinking that the U.S. Administration is in a mood to listen. The second alternative is

one that never seems to have been seriously canvassed at all. There is a provision under the rules of the International Monetary Fund for declaring chronic creditor currencies 'scarce'. Once this has been done, other member countries are entitled to apply discriminatory controls against the exports of the countries concerned. This clause has never been invoked (although it was in practice applied against the dollar in the years after the last World War). It is surely time it were applied against the French, certainly, and possibly against the Germans and the Swiss as well. Even the threat of its application might be sufficient to arouse the persistent creditors to an awareness of their responsibilities.

GERMAN PLAN FOR CONVERTIBILITY

UNDER ITS new Government, West Germany looks upon world-wide monetary good conduct as an element of pre-eminent importance in any reform of the exchange system. But, unlike his predecessors, Prof. Karl Schiller, the new Minister of Economics, is thinking of institutional measures to place inflation into quarantine and prevent its spreading from one country to another. In a Report on the Economy submitted to the Bundestag recently, he refers to the idea of an European system of hardened currencies. It had already played a part in the policy statement by Dr Kesinger some months ago. Just what he means is still not clear. The fact of the matter appears to be that ideas have not yet crystallised in his Ministry. But Prof. Schiller did tell reporters that it would be a variation of the proposals made last year by a body of expert economists. The experts proposed a voluntary hard currency *bloc* whose members would be irrevocably committed to the fullest degree of convertibility and to fixed exchange rates. The raising of foreign loans would be permitted but central aid would not be; in other words, the proposals would reintroduce some of the features of the classic gold standard. Perhaps that is why Prof. Schiller said that the French were particularly curious to know just what he had in mind. But this cannot be anything as self-governing as the classic gold standard, not working automatically as a machinery. Asked what countries he had in mind as members of such a European *bloc*, Prof. Schiller said 'as many as possible', and recalled that the Government had gone out for bringing Britain and the other EFTA countries into the Common Market. The fact that the Germans, even at a time when they are not threatened with it, keep harping on the theme of imported inflation underlines the need for Britain as a candidate for Common Market membership to get her external payments into permanent order.

THE FRENCH GOLD EXCHANGE STANDARD

IN A MOVE which could eventually establish Paris as an international gold market like London, the French Government announced recently that there would be complete freedom to move gold in and out of France at will from February 1, 1967. This was the surprise element in the Government's promised package of exchange control liberalisation measures published in detail by the *Journal Officiale*. The move is justified as a logical extension of the removal of restrictions on private capital transfers and has in fact been rumoured on the Paris gold market for several

weeks. It undoes the legislation of 1948 which created a free but strictly national market in gold and places Paris on the same footing as Switzerland, Germany and Belgium. The immediate effect will be to put the market in smuggled gold out of business and reduce many dealers' profits. But in the longer run, the measures could lead to Paris becoming an important international gold market in its own right. At the moment, sources close to the Finance Ministry do not expect the reform to have any noticeable effect on gold prices, and trading was sluggish in the wake of the news, with prices slightly lower than previous Friday. However, if prices did get seriously out of line, the big unanswered question would be whether the French Government would intervene in accordance with its obligations under the International Gold Pool Agreement, or start agitating again for an increase in the official price as expected. The French authorities have made a clean sweep of exchange controls on private capital transfers in and out of France and the franc becomes fully convertible into all foreign currencies. However, they are retaining a measure of control over industrial investment and borrowing in either direction. The French move will enable Frenchmen to import and export currencies, gold and shares freely.

Frenchmen will be authorised to import and export, as well as to hold in France and abroad currencies, gold and shares. They are authorised to settle their expenses abroad by cheques drawn on a French Bank, and to open accounts in a foreign bank and hold funds there. However, limited controls will be maintained on certain operations, including direct foreign investment in France and French investments abroad, the floating of foreign loans in France, and French loans abroad. Referring to the freedom to import and export gold, which was only to be declared, the announcement said it would have been 'illogical' to ban the export of gold since it could have been done indirectly as a result of the liberalisation of exchanges. In order to keep a watch on France's balance of payments position and on the movement of capital into and out of the country, banks, enterprises and individuals will have to report on their foreign operations for 'statistical reasons'. The measures announced by the French Government on January 30, 1967, represent a further liberalisation of France's slender exchange control according to financial circles. These circles state that the liberalisation reflects the stability and strength of the French franc but adds only marginally to the existing convertibility provisions governing the franc. France freed its current transactions from exchange control quite some time ago, and the franc, consequently, has been a convertible currency under I.M.F. Article 8. The withdrawal of control on currency and gold movement as well as on share holding is a *de jure* recognition of *de facto* position, for French exchange control has been liberal. It is pointed out that capital movement has been practically freed with the removal of control on share holding. In the light of President De Gaulle's known dislike of American capital, the continuation of limited control on direct foreign investment in France is presumably directed against the United States. The retention of limited control on French investment abroad is perhaps aimed at channelising French capital into form er colonies and the E.C.M.

DEVALUATION IN BRAZIL

A SUBSTANTIAL devaluation of the Brazilian cruzeiro, and the introduction of a 'new cruzeiro' were announced simultaneously by the Brazilian Central Bank recently. The devaluation takes the old cruzeiro from its former rate of 2,200—2,210 to the dollar to 2,700—2,715. The new cruzeiro, with a value of 2.7 to the dollar, came into use after a two-day bank holiday declared by the Government to allow banks to prepare for the change-over. The devaluation announcement was not a surprise in itself. The internal purchasing power of the cruzeiro has fallen heavily since the present rate was set in November, 1965 (the rise in the cost of living totalled 41 per cent last year). Moreover, President Castelo Branco is believed to have promised his successor, Marshall Costae Silve, that he would introduce a new rate before handing over power in March. However, the simultaneous introduction of the 'new' cruzeiro has come as a surprise to most observers. The Government orginally announced its intention to create a new currency unit more than a year ago but since then the move has been delayed a number of times—apparently because it was not felt that enough progress had been made in bringing inflation under control. If this was the motive for the delay, the Government has now apparently changed its policy. Last year's rate of inflation was only 4 per cent lower than that of the previous year, and costs have been rising steadily since the beginning of 1967. The devaluation can be expected to give a further push to internal costs—especially because of its effect on the prices of imported oil and wheat, two of the basic items on Brazil's import bill. However, it is widely felt that the step was fully due. The maintenance of the old rate would before long have begun to affect Brazil's export performance by distorting the prices of Brazilian products in relation to international market prices. There have been rumours that heavy buying of dollars in Sao Paulo, Brazil's industrial and financial centre, may have persuaded the Government to act a week or two earlier than it might otherwise have done. But the influence of Sao Paulo speculators is not thought to have been decisive. A run on domestic currency is a very common precursor of Latin American devaluations. Introduction of the new unit places a heavy premium on financial management by the Costa regime, since any early need to devalue the new unit would completely shake public confidence. The strongest candidate for the Finance Ministry, which Dr Bulnces is expected to vacate is Sr Delfim Neto, who was responsible for restoring order rapidly to Sao Paulo finances.

DEVALUATION TO END DEVALUATIONS IN ARGENTINA

THE LATEST devaluation of the Argentine peso is a devaluation with a difference in the sense that it is an event of much more than local importance. For, in making it the occasion has been used for liberalisation operation that appears to put the peso on a floating basis. Argentina has belatedly recognised that adherence to fixed parity way is apt to aggravate the economic difficulties of countries suffering from

chronic inflation. And this is a conversion that should serve to encourage a thorough re-examination of the whole question of whether current exchange rate orthodoxy as set out in the I.M.F. charter, is sufficiently realistic.

Few economies have presented a sadder sight in recent years than that of Argentina. Even in Latin American terms, her experience has been a singularly unhappy one. It is not only that she has been continually suffering from a particularly acute variety of chronic inflation. It is also that she has been subject to unusually severe and prolonged bouts of economic stagnation. It is, indeed, the case that industrial production in Argentina is currently to be found at a level not materially in excess of that at which it was running a decade ago—a graphic illustration of the way in which the sustained prosperity the world as a whole has enjoyed in this period has been almost entirely missed.

It would, of course, be absurd to suggest that the whole of the blame for this situation lies in a mistaken exchange rate policy. To a large extent the trouble has been rooted in the singularly poor economic management of successive Argentine Governments, particularly in the budgetary field—this having resulted in heavy dependence on the wholesale creation of paper money for financing official expenditure. But there can be little doubt that the procedures followed by the Argentine authorities for adjusting the rate of exchange for the peso to deal with the external payments complications generated by the persistent fall in the internal value of currency have made matters worse.

Thus, in conformity with I.M.F. rules, the adjustments in the external value of the peso needed to keep Argentine exports competitive, have taken the form of periodic changes from one fixed parity to another. Unfortunately, because of an understandable official fear of the adverse political and economic repercussions which abrupt changes are apt to touch off, the Argentine authorities have been inclined to delay carrying out such realignments for far too long. For much the same reasons, there has been a tendency to keep the adjustments to the minimum amount needed to restore the exchange rate to a realistic level—with the inevitable result, given the pace at which inflation was continuing, that every new rate promptly became suspect and soon after that unrealistic.

The net effect has been for the readjustment of the exchange rate to lag continually and seriously behind the change in the domestic situation created by inflation. In consequence, exports have been more difficult to sell than they should have been, imports have been given undue encouragement, and other additional distortions introduced into the economic picture.

What is even more important, the official preoccupation with the defence of each new parity has resulted in a continual striving to contain the inflationary pressures generated by Government spending excesses by holding other forms of economic activity in check. This, in turn, has meant that the additional production which could have done so much to provide an antidote to the onward march of the wages-prices spiral has not been forthcoming. On the contrary, the low productivity of Argentine industry—the factor that can be said to be at the heart of the country's prolonged economic sickness—has been accentuated.

With her latest exchange policy overhaul, however, Argentina can be said to have struck an entirely new note. To begin with, it has been indicated that the authorities are prepared to see a much more severe cut in the external value of the peso than they have on previous occasions—the figure of 350 to the dollar mentioned in early reports on the likely consequences of the official policy change involves a depreciation of around 30 per cent. Clearly, given the improbability of inflation being completely stamped out in the near future, it would be over-optimistic to see this as *A Devaluation to End Devaluations*. But it should ensure that the external value of the peso remains reasonably realistic until the projected new attack on inflation begins to bite.

In the second place, the devaluation has been accompanied by a liberalisation of exchange controls that is evidently intended to leave the way clear for Argentina to have what would effectively be a floating currency while the big drive to get order out of the present chaos is going forward.

It hardly needs be said that Argentina has a hard battle ahead of her if she really intends to end the inflation menace. But the infusion of greater flexibility into exchange rate policy should help a lot—most of all by paving the way for an end to the austerity-without-meaning that has been such an unhappy feature of the Argentine economic scene in recent years.

Her recognition that countries suffering from chronic inflation may derive benefits from a temporary deviation from the fixed parity path could well have advantages for many other countries, if it results in a greater readiness in the world at large to examine the impressive case for resort to the floating rate system in such circumstances.

EXCHANGE CRISIS IN INDIA PLAN MADE

Over a period of years, there has been a 'crisis of foreign exchange'. This is because we have gone in for industries both in the public and private sectors which consumed far too much foreign exchange for their establishment and subsequently for running them. At least from now, no industrial unit should be allowed to be put up if it could not earn or save foreign exchange within three years after going into operation. A crucial aspect of economic management is the time factor, which does not seem to bother the authorities at all. The delay in governmental procedures and governmental discussions created uncertainty and gave fillip to corruption. The economic consequences are equally bad. 'Therefore, there must be a time-planning. We cannot afford a sense of timelessness, however attractive it might be philosophically'. It would appear that the expansion of public sector industries has become a matter of ideology. Already about Rs 2,500 crores have been invested in public sector enterprises. The return is negligible. There has been excessive expenditure on items which did not increase production. The staff strength was often more than double the scale provided in the project report. Even so, the draft Fourth Plan envisages a total additional investment of Rs 3,500 crores by the public sector in organised industry and mining. It is time that the

Government permitted cultivable land, which is currently not held by peasant farmers, to be operated by joint stock companies. The minimum wage legislation for agricultural labour has remained largely unimplemented by the State Governments because it has not been found feasible. But if joint stock companies come into operation, this could be done and agricultural labour would benefit. After a decision has been taken that fertiliser factories could be established in the private sector, there have been protracted deliberations on the terms and conditions under which foreign capital and know-how might be allowed to participate. While on the one side, the industry was bound by complex and extensive regulations, on the other, inter-state movement of foodgrains was disallowed. On the whole, production as well as distribution suffered due to excessive preoccupation with ideologies and ideal solutions. Even in the private sector, production and productivity have not always been planned. It is the environment in which they function which has to be changed drastically to make higher production from given resources a necessity for survival. 'Production consciousness is not evoked when the producer big or small, public or private, is able to sell his goods without much effort. It is only by increasing the competitiveness that we can promote the best use of our resources.'

CHAPTER II

THE 1966 DEVALUATION OF THE RUPEE: PROS AND CONS

OFFICIAL DENIAL

PLANNING Minister Asoka Mehta on 17 February, 1966, set at rest a report in the foreign press that India was considering devaluation of the Rupee. Mr Mehta's statement came on behalf of the Finance Minister after Mr B. R. Bhagat, Minister of State for Finance, had parried questions in the Lok Sabha on the issue.

That the Government had no intention of devaluing the Rupee was confirmed by Finance Minister Sachin Chaudhari in a written reply. The issue came up following the admission by Mr Bhagat that the unofficial value of the rupee in foreign markets was not at par with the official exchange rate. Dr Ram Manohar Lohia had asked whether the value of the Rupee had declined from the official rate of 21 U.S. cents to 14 and then to 10 cents the previous month. Mr Bhagat said it was a fact, but added that the Government was concerned only with the official and legal rate. Asked by Mr K. D. Malaviya the reasons for the decline of the rupee, he said the Finance Minister would deal with the matter in the review of the economic situation while presenting the Budget. Mr Nath Pai asked: 'In view of the blunt and embarrassing admission by the Minister that the rupee value was not at par with the official rate, what steps have been taken by the Government to stop further erosion in its value? Are they contemplating devaluation?' Mr Bhagat replied that steps were being taken from time to time to stabilise the rupee value. In a matter like devaluation, the Government did not give advance information. The Minister told Mrs Savithri Nigam that the decline in the rupee value had no impact on our export earnings. In reply to Mr M. P. Shinkre, he added that 99.9 per cent of the trade was done at the official exchange rate.

Mr Homi Daji asked whether the Government was aware that London economic journals had published reports recently that the rupee was about to be devalued. In view of the grave monetary crisis that such reports might stir up would the Government make the position clear?

It was at this stage that Mr Mehta intervened to assert that there was no move to devalue the rupee. Several members pointed to the absence of the Finance Minister and complained that he should have been in the House to reply to important questions. Mr Mehta said that Mr Chaudhari and he were busy at a meeting. When he left for Parliament, he had asked the Finance Minister to stay on.

ANNOUNCEMENT

THE OUTSTANDING event during June was the announcement by the Government of India on June 5, 1966, of their decision to devalue the Indian rupee by 36.5 per cent with effect from 2 a.m., on June 6. The stock, commodity and bullion

markets reacted bullishly to the devaluation announcement. After devaluation, the general price level had not at once shown any significant rise: 1.5 per cent over the four weeks ended July 2, being due primarily to seasonal factors. Reflecting the progress of the slack season during June, both money supply and bank credit showed sizable declines: money rates tended to ease and gilt-edged evinced a firm trend. Towards the close of the month, the Governor of the Reserve Bank advised the banking system to conserve the resources it got by way of deposit actual as well as repayment of its loans and advances during the current slack season so that it can, without undue recourse to the Reserve Bank, meet the requirements of the next busy season.

The decision to change the par value of the rupee was taken as, in the prevailing circumstances, such a measure was essential in the interests of the country's economy. The requirements of economic development over the last fifteen years had thrown a very heavy strain on the country's resources, more especially the external resources. Despite the aid from abroad, considerable inroads into the country's foreign exchange reserves had to be made which, excluding gold, had declined from Rs 785 crores in the beginning of the Second Plan to the low level of Rs 182 crores at the end of March 1966. The growth in the earnings in recent years both through exports of goods and services was not adequate despite the assistance given to exporters in a variety of ways. In a large measure this was due to inflationary pressures, which meant higher costs for exporting industries and also a diversion of supplies to the domestic market. The tendency for exports to be priced out in foreign markets had been in evidence for some time and Government had during the last few years, taken a number of steps in an attempt to remedy this situation. These included the Import Entitlement Scheme, the Scheme of Tax Credit Certificate and even straight subsidies in some instances. These measures, however, proved inadequate. Subsidies on exports had to be increased periodically, and even traditional exports such as tea and jute required support through the medium of Tax Credit Certificates. Despite all such assistance, the rising trend in exports which had been in evidence in the early years of the Third Plan was not maintained and there was in fact a slight fall in exports in 1965-66 as compared to the previous year. In regard to imports also, despite the progressive increase in import duties, imported goods still continued to command a premium as Indian prices of comparable goods were well above world prices. The result was that the full potentialities of import substitution could not be realised. The severe restrictions on imports also only enabled importers to make large profits without any benefit to the consumer. The experience of the measures taken until recently suggests that they could not provide an enduring solution to the problem. Essentially, this was so because of the decline in the purchasing power of the rupee, both at home and abroad during the last ten years or so, and Government therefore came to the conclusion that the *status quo* could not be maintained any further without serious damage to our economy and that the only course for providing a stable and enduring solution to our balance of payments lay in fixing the par value of the rupee at a more realistic level. Accordingly, the

par value of the rupee was re-fixed with effect from 2 a.m. on June 6, 1966 at 0.118489 grammes of fine gold per Indian rupee as against the previous value of 0.186621 grammes of fine gold. This corresponds to a new rate of exchange of Rs 7.50 to 1 U.S. dollar, and to Rs 21 to 1 pound sterling as against the previous rates of Rs 4.76 to 1 U.S. dollar and Rs 13.33 to 1 pound sterling. The Reserve Bank decided, for the present, to discontinue forward sales of sterling to the authorised dealers in foreign exchange. The Reserve Bank's revised spot selling rate effective from June 8, 1966 to the authorised dealers was fixed at £4.7467 for Rs 100 as against the previous rates for forward and spot sales of 1 *sh.* 5.31/32 *d.* and 1 *sh.* 5.63/64 *d.* per rupee, respectively. However, the Reserve Bank would continue to buy sterling from the banks, both spot and forward up to six months at £4.7619 for Rs 100 as against the previous rate of 1 *sh.* 6 *d.* per rupee.

THE THEORETICAL ASPECT

THE CURRENCY of a country is primarily used for transactions within the country. One of its important uses is as a measure of value. We say a piece of cloth is worth so many rupees. It thus helps to serve as a medium of exchange between persons. Within the country, this is simple enough. But when we try to sell goods to people abroad or buy goods from them, they do not accept settlement in terms of rupees. We have to settle these transactions either in terms of gold or with reference to some standard international unit. We specify how much a pound sterling or a dollar is worth in terms of rupees and settle our contracts in these terms. Thus, if we buy goods from say Britain, the prices are generally quoted in terms of the pound sterling, the British currency. Since we know how much a pound is worth in terms of rupees, this has to be translated into dollars or pounds or francs or roubles, as the case may be. This is settled through an official exchange rate in most countries. This exchange rate becomes important in enabling trade and commerce between countries. From 1949 up to 1966, we had kept our rate of exchange at Rs 4.76 = \$1 (one United States dollar) or Rs 13.33 = £1 (one pound sterling). On 6 June, 1966, we changed these rates at which transactions are to take place with foreign countries. The changes were such as to make \$1 = 7.50 rupees and £1 = 21.00 rupees. This change is what has been known as devaluation.

At the outset, let us clarify that this does not mean any change in the value of the rupee inside the country. This is simple enough to understand if we imagine what would have happened if we had changed the exchange rate in the opposite direction. The rupee would not have been larger in content merely by our increasing its exchange value. Devaluation of the currency does not by itself decrease its value inside the country. That is to say, brinjals and cucumbers, paddy and wheat, which are produced in the country, need not and should not cost more merely because we have changed the value of the rupee in the external market.

As a country, we sell goods abroad. These are our exports. We also buy goods from abroad. These are our imports. We have to pay for our imports with the foreign currency we earn by our exports. For many years now, we have

been importing more than we have been exporting. We have to pay for the difference by borrowing from countries and banks abroad. This we have been doing through what is known as foreign aid. We need to do this because the progress we are engaged in requires equipment and raw materials in excess of what we can pay for through our exports. Countries abroad have been willing to help us. We have also tried to do two things: (*a*) to increase our exports through various means; and (*b*) to control and restrict our imports to the barest minimum, by substituting indigenous goods for imported goods, and by organising internal production. Even so, we find that there is a gap between our exports and imports. This is what the experts call a balance of payments problem. Put in simple terms, our need for foreign currency is more than our supply.

When any commodity is in short supply, its price tends to go up. Foreign exchange has been in short supply in India for quite some years. This has led to its price in terms of rupees going up. Thus, U.S. dollars were being sold for Rs 10 each in the markets of Hong Kong and Singapore. Pounds sterling were being sold for Rs 25 to 30 each. All this time, we tried to keep the official rate at Rs 4.76 to a dollar and Rs 13.33 to a pound. This artificially depressed rate and the resultant imbalance could not, however, be maintained for long without dangerous consequences.

India, like most countries, has a considerable source of foreign exchange through earnings of its nationals abroad. But, during the last few years, most of these earnings did not come in through official channels. Unofficial channels which offered prices as high as Rs 8 to 9 per dollar were preferred. These unofficial transactions led not only to foreign exchange not flowing into governmental resources but also to a considerable amount of smuggling activities. Thus, while the country was borrowing foreign currency abroad for its essential requirements, smugglers were bringing in gold and other luxuries. Their risks, heavy as they were, were worth taking because of the big difference between the official rate of the rupee and the unofficial rate.

Recent experience with the National Defence Remittance Scheme has also shown that given proper incentives, a sizable part of our national earnings abroad will return to India. The gist of the remittance scheme was that if an Indian national resident abroad remits foreign exchange to India, he could sell part of it at a premium for import of certain types of goods. A number of industrialists badly in need of foreign exchange bought it at a premium. In effect, what we had done was to give the remitter a larger number of rupees per dollar or pound sterling than he would otherwise get. During the period of its operation, the scheme got the Government of India foreign exchange to the extent of nearly Rs 30 crores. This emphasises the fact that devaluation was sorely needed.

Our exports were also getting priced out of foreign markets. Except in the case of commodities like tea, jute and coffee, other exports could not sell adequately without the support of a subsidy. In order to maintain our exports, subsidies were offered in various forms, differing from commodity to commodity. A subsidy for export really means the recognition of a lower exchange-value for the rupee

than the official rate. If an exporter purchases a ton of steel at say, Rs 700 in the country, he was given a subsidy ranging from Rs 200 to 300 making it possible for him to sell his goods abroad at Rs 400 to Rs 500 per ton. Subsidies given for various exports ranged widely, in some cases up to 50 to 60 per cent. The forms in which subsidies were given also gave rise to some abuses. Be that as it may, it is clear that even before devaluation, the export subsidy scheme recognised the *de facto* fall in the value of the rupee with reference to foreign currencies.

We were in effect devaluing the rupee before 6 June, 1966, through yet another means. We raised import duties in order to make imports costlier than they would be otherwise. Thus, capital goods costing the equivalent of Rs 100 in foreign countries were made to carry a duty of nearly Rs 55 and the internal price of these goods became Rs 155 as against Rs 100 abroad. Some goods carried even higher rates of duties. This was in recognition of the fact that if there were no duties, the foreign goods would be much more attractive than goods produced in the country. Conversely, the rupee, it was recognised, was worth less in terms of foreign goods than the official rate presumed. It was to correct these imbalances that the Government devalued the rupee from 6 June, 1966. Now let us see what this measure entails. First of all, it is not a cure in itself. It is only the first step in the cure. It recognises the malady. It enables exports to be made at competitive prices. It discourages imports of non-essential goods by raising their rupee prices. There are inevitably a number of questions which arise in peoples' minds as to the consequences of devaluation.

Will devaluation raise internal prices? It need not have that effect so far as purely indigenous goods are concerned. So far as imported food, fertilisers and petroleum products are concerned, again, it will not raise prices since Government have undertaken to subsidise the increase arising from higher import costs in rupees. This leaves out goods such as cars, refrigerators, industrial equipment and industrial raw materials which may be imported either fully or in the form of raw materials and components. In such cases, the result of devaluation is to raise prices so that the scarcity of foreign exchange is fully felt by those who use these luxury goods.

Government have also taken steps to bring in adequate aid from abroad to see that our industries work to full capacity. One of our major problems has been the fact that in many of our industries, our capacity has been built up to a far higher level than we can sustain through our normal imports. In the case of smaller units, thirty per cent of capacity is idle because of lack of raw materials. The same is the case with most of our larger units also. The availability of adequate imports of raw materials and components from abroad, although at a higher rupee price, will enable these units to work to fuller capacity and to create more wealth in the country. More people will be employed. Indirectly, since the plants will be fully utilised, the overheads will be distributed over a larger number of units, thus decreasing costs. Although, on the one hand, higher prices for imports may raise costs, we can also expect a lowering of costs in fuller utilisation of capacity based on freer imports.

Devaluation will definitely help our exports by making them more competitive. We can sell goods abroad without a whole series of subsidies. Some people wonder whether this would not mean that we will earn less foreign exchange. This apprehension is not correct. Most of our export transactions are entered into with reference to international prices at so many dollars or pounds per ton. When devaluation of the rupee takes place, it only means that our exporters get more rupees than they were getting before. By the same token, they have more scope for offering better competition to other countries. In commodities like cashewnuts, if we offer lower prices, we can sell a more than proportionately higher volume of goods. This means that we can increase our total export earnings. This is the way in which merchants try to win, and usually succeed in winning customers. For a small reduction in price, they are usually able to attract more customers and thus make more sales.

There are some other categories of goods for which we cannot get a similarly elastic increase of demand by changing prices. Tea is an instance in point. Here, there is no great possibility of increasing demand by decreasing prices. In the normal course, as a result of devaluation, exporters of tea would have obtained larger profits to the extent of the exchange rate adjustment. They would have got more rupees per ton of tea exported. In order to prevent such windfall profits, the Government have stepped in to impose export taxes so that (*a*) the exporter of tea gets the same rupee price as before, (*b*) the importer of tea pays the same foreign exchange price as before, and (*c*) the difference comes to the Government. We have imposed similar export levies on a few other traditional exports such as jute, coffee, hides and skins where our exports have shown capacity to move up even before devaluation. But it is in respect of our non-traditional goods like steel, machinery, raw materials like iron ore, etc., that we need to expand our markets. These markets are sensitive to prices. Hence devaluation is used as a tool in expanding exports.

One common fear is whether devaluation will increase our foreign debts. Suppose our debts before devaluation amounted to Rs 4,760 crores in rupee terms. We contracted these debts in terms, not of rupees but of units of foreign currency. This total does not get altered although the rupee measure gets changed to Rs 7,500 crores. The change can be likened to what happened when we changed over from the lb. system to the metric system. What was a mile before became about 1.5 kilometres after the change. But the distance was the same. Let us look at this problem in another way. How do we repay foreign debts? We repay them by selling goods and services to foreign countries. Suppose that in order to repay 100 dollars we had to sell one ton of steel before devaluation. The international price of steel remains the same even after the devaluation of the rupee, except that we have a better chance of selling it as we can offer some marginal reductions to attract purchasers. We will still have to sell the same quantity of steel as before to repay this debt, although in terms of rupees, the amount may well look bigger. But, the foreign debt has *not* become larger in real terms.

Very often, one is asked why matters came to such a pass that we had to devalue the rupee. Is this not a condemnation of all our policies over the last 18 years? Such a conclusion would be an unfortunate simplification. The fact is that over the last 18 years since Independence, we have been building up the economy. We have added substantially to the productive capacity of the country. We have invested in dams, electricity generation, roads, schools, steel plants, oil wells and refineries and fertiliser plants. We have more wealth to distribute today than we had two decades ago. We have many industries which we did not even dream of when we became free. In this process of growth and development, the economy has also developed some distortions. These distortions have to be corrected if we are to maintain our forward march. Devaluation is a recognition of these distortions and a starting point in curing them. We have to be courageous enough to admit this. It is a sign of strength for a nation to recognise the need to correct its economic imbalance. If out of pique or false notions of prestige, we refuse to correct the imbalance, our continued growth would become difficult.

FOLLOW-UP MEASURES

IMMEDIATELY after the decision to devalue the rupee was announced, several transitional problems arose and Government acted with promptitude in dealing with them. In suitable cases, export duties were revised in the light of experience gained even during the short period which elasped after devaluation. In the case of shipments made prior to devaluation, proceeds of which had been covered by a forward sale of foreign exchange, the exporter tended to lose because he would not get the advantage of the new exchange rate and would still have to pay the export duty. In such cases, an exemption from export duty was granted. Payment of export duty in instalments was also permitted in some cases.

At the other end of the scale, there are some export products which would still need some form of assistance, as they are products of nascent industries which can hope to be viable only over time. Government is considering the question of devising suitable forms of assistance for such industries. Moreover, although the export incentive schemes have been abolished, arrangements are being made to meet the import requirements of export industries.

The position of existing contracts of trade with the rupee payment areas was uncertain. Government have concluded negotiations with some of the countries concerned and it has been agreed that the value of the existing contracts should be suitably revised upward. New contracts will no doubt be settled in accordance with the market conditions. With the removal of uncertainty, trade with these countries should once again flow smoothly as before.

Following devaluation, liberalisation of imports was announced in respect of 59 priority industries whose requirements of raw materials, components and spares were met fully for a period of six months in the first instance. The needs of small-scale industries received special attention in the scheme of

liberalisation. Government is confident that with the availability of additional foreign aid, the programme of import liberalisation will be sustained, so that industry can achieve fuller utilisation of capacity, production can grow and a better balance achieved between supply and demand.

At any rate, the price level did not show any marked increase after devaluation. Over the 4 weeks ending July 2, 1966, wholesale prices rose by 1.5 per cent. This is a noticeably smaller increase than in the 4 weeks prior to devaluation when prices had risen by 2.4 per cent. Prices of food articles rose by 1.2 per cent primarily due to a seasonal rise in the prices of foodgrains and *gur*, which was not connected with devaluation as such. Among other essential articles of consumption, cloth prices remained stable and so were prices of kerosene, matches, sugar, drugs and medicines. Prices of many of these articles are controlled by Government. Following devaluation, prices of intermediate products, many of which are imported, rose and the group index of wholesale prices of these products rose by 3.5 per cent. Wholesale prices of machinery showed a rise of 8 per cent. Government have taken steps to ensure that there is no unwarranted increase in prices and that in particular, prices of essential articles are held. Despite the increased cost of imported foodgrains, the issue prices were not revised upward for the time being, the loss being absorbed through a budgetary subsidy. Excise duties on petroleum products were also suitably adjusted downward to maintain consumer prices at pre-devaluation levels. A Commissioner of Civil Supplies was appointed to institute such measures as were necessary to prevent a rise in prices of essential articles of consumption. The Essential Commodities Act was amended by an Ordinance to hold prices of essential commodities. Arrangements were also made to open consumer Co-operative stores in different parts of the country.

Positive steps will be necessary to ensure that the budgetary balance is maintained. It will be necessary to introduce fresh measures of economy in expenditure, to improve the performance of our projects so that an adequate increase in output is obtained from investments already made and to undertake fresh investment only to the extent that genuine savings are available to finance them. These measures imply a rigorous discipline on the part of Central and State Governments alike and also a constant watch by the Reserve Bank over the creation of credit by the banking system.

A HISTORICAL VIEW

Is DEVALUATION a sign of defeat in a country's struggle for economic development and self-reliance?

An affirmative answer might be suggested by the example of some countries which have achieved remarkable economic growth in recent years. The United States dollar has looked every other currency in the face. The external value of the Japanese yen has remained unchanged for thirteen years. The change in the par value of the German mark in 1961 was a change upward—to 25 U.S. cents per mark from the earlier rate of 23.8 cents. These examples might suggest a necessary

connection between stability of the exchange rate and economic growth. But there is in fact no necessary connection.

A country which has reduced the external value of its currency might well achieve a higher rate of growth than another country at the same stage of economic development, which maintains its exchange rate. Take India and Pakistan. India devalued the rupee in relation to the dollar soon after Independence, in September 1949. At that time Pakistan considered and rejected the option to devalue its rupee to make it equivalent to 21 U.S. cents, but accepted similar devaluation 6 years later.

Let us see what the relative performance of India and Pakistan was like during these six years. According to the Statistical Year Book of the United Nations, the index number of India's national product at constant prices, with 1958 as the base at one hundred, was 76 in 1950. It stood at 90 in 1955. In other words, the national product rose by 18.42 per cent in the 6 years following the devaluation of the Indian rupee. According to the same Year Book, the index of Pakistan's national product was 85 in 1950, and 92 in 1955. In other words, the national product rose by only 8.23 per cent over the 6 years during which Pakistan did not devalue. It was Britain's decision to devalue the pound sterling in 1949 which led to the devaluation of the rupee. As Jawaharlal Nehru said at the time in a nation-wide broadcast, parallel action by India was necessary in order to maintain our exports—most of which went to the sterling area. He pointed out that, in addition, a revision of the dollar-rupee ratio would help to stimulate our exports to hard currency countries.

Britain, like India, achieved a steady rate of economic growth after devaluation. The index figure of Britain's national product rose from 86 in 1950 to 98 in 1955, and has since maintained the upward trend. A large number of West European countries also devalued their currencies in 1949, in line with the pound sterling. Their economies, too, have been on the upswing ever since. Another notable example of exchange reform is the devaluation of the French franc in December 1958. The reform was effected by Gen. de Gaulle, who has become the symbol of the political and economic resurgence of France after the Second World War.

Prior to the devaluation of the franc, successive French Governments had attempted to correct the disequilibrium in the balance of payments by various measures short of devaluation. For example, there was a *de facto* devaluation of the franc in August 1957. This was known as 'Operation 20 per cent'. It was so called because a surcharge of 20 per cent was levied on a wide range of imports, while exporters were given a bonus of 20 per cent on the value of their sales abroad. Similarly, a special tourist exchange rate with 20 per cent discount was introduced, while French tourists going abroad had to pay a 20 per cent premium to secure foreign exchange. Operation 20 per cent proved inadequate to combat inflation. It did not restore budgetary equilibrium despite foreign credits amounting to 655 million dollars which France secured early in 1958. Nor was the position significantly improved by the National Gold Loan, launched by Gen. de Gaulle as one of the first acts of the new Government in June 1958. These alternatives to

devaluation which France tried are rather similar to our own Gold Bonds Scheme, increased duties on imports, and export subsidies. In France, as in India now, these alternatives to devaluation were found inadequate.

Eventually when Gen. de Gaulle decided on devaluation, the package of measures of which it formed a part was again similar to what our Finance Minister announced on June 5,1966. France lifted quantitative restrictions on 90 per cent of imports from fellow-members of the Organisation for European Economic Co-operation, and liberalised 50 per cent of imports from the dollar area. The exchange reform undertaken by France induced friendly countries to extend substantial stand-by credits. After the devaluation of December 1958, the French economy has never looked back. The foreign exchange reserves of France went up from about a billion dollars in 1958 to more than six billion dollars by the end of 1965. Another country—and it is a socialist country—which has found devaluation a valuable tool for certain jobs of economic repair is Yugoslavia.

That country found itself in difficulty in 1951 on account of high domestic prices. The situation was aggravated by the economic pressure to which Yugoslavia had been subjected by countries of the Cominform since 1948. Marshal Tito's Government found it necessary to bring the exchange rate of the dinar in line with the ratio between domestic and world prices. The dinar was therefore devalued in January 1952. The new rate was 300 dinars per U.S. dollar, as against the old rate of 50 dinars. Yugoslavia effected another exchange reform in December 1960. A uniform exchange rate of 750 dinars per U.S. dollar was established in place of the multiple rate system which had developed over the years. These multiple rates had ranged from the official exchange value of 300 dinars per U.S. dollar to as much as 1,000 dinars for the export of certain commodities. More recently, in July 1965, Yugoslavia found it necessary to devalue the currency further to 1,250 dinars per U.S. dollar. Simultaneously with these reforms, Yugoslavia abolished Government subsidies for export enterprises, and relaxed the complicated administrative controls under which foreign trade had been conducted.

The reforms were assisted by foreign credits from the International Monetary Fund and other sources. It will be noticed that the pattern of devaluation and related measures was the same in Yugoslavia as in France in 1958, that is, abolition of artificial subsidies for exports, liberalisation of controls over foreign trade, and assistance from friendly countries and banking institutions to smoothen the transition to a new, realistic and stable basis for the further development of the economy. This is also the pattern of reform envisaged in India, with the expectation of substantial aid from the World Bank, the International Development Association and other members of the Aid India Consortium.

Though foreign aid helps to smoothen the transition, devaluation is essentially a move away from dependence on foreign aid. It is a move towards self-reliance by strengthening the competitive power of a country's exports in the world market. Devaluation can succeed in this objective only if it is accompanied by a high degree of internal economic discipline. In Yugoslavia, for instance, the improvement of productivity and economy in administration were undertaken as the primary

national tasks in order to contain the tendency for internal prices to rise in the wake of devaluation. Even the Soviet Union, whose trade transactions with other countries are essentially in the nature of barter, devalued its currency in order to increase invisible earnings. From 1960, when the value of the rouble was fixed on a gold basis, the official exchange rate was four roubles to the U.S. dollar. In March 1957 it was announced that premiums ranging up to 150 per cent would be paid on conversions of specified foreign currencies into roubles. The premiums were offered on conversions by tourists and other visitors, as well as on transactions of a non-commercial character such as rouble purchases by foreign embassies and foreign correspondents. The 29 foreign currencies which were specified included the pound sterling and the U.S. dollar.

On January 1, 1961 a new 'heavy' rouble was introduced, which exchanged internally for 10 old roubles. However, the external value of this new rouble in terms of gold was reduced. It was fixed at only 987 milligrams, not at ten times the previous value of 222 milligrams. Many countries have been able to strengthen their economies following devaluation of the currencies. But it is not as if devaluation is a guaranteed remedy by itself for a country's balance of payments difficulties. To create the basis for a resurgence of production and of exports on a new and realistic basis, it is necessary that there should be political stability as well as prudent and careful management of the budget.

Indonesia is an example of a country where devaluation has not helped to improve the economy. Following the restoration of Indonesian freedom in December 1949, the Indonesian rupiah was first devalued in February 1952. From the rate of 11.4 rupiahs per U.S. dollar, the exchange rate was brought down to 31.72 rupiahs. Along with the devaluation, the Government abolished the earlier system of issuing foreign exchange certificates against exports, and allowing imports on the sale of the certificates—a system somewhat similar to the import entitlement scheme which was scrapped in India recently. Again, as India has now done, Indonesia levied additional duties on exports. It was also decided to subsidise rice imports so as to prevent an increase in the price of essential commodities. This was a sound package of reforms. But it failed to stabilise the Indonesian economy. Heavy military expenditure and other non-productive spending over the years eroded the value of the Indonesian rupiah. Inflation became so rampant that in the latest devaluation of the rupiah in December 1965, the exchange rate was brought down to 10,000 rupiahs, for one U.S. dollar. There was no question of any standby credit from the International Monetary Fund. Indonesia had withdrawn from the Fund in August, following its walk-out from the United Nations in January 1965.

To the question, then, whether devaluation means defeat in the struggle for economic development, the answer obviously is: not necessarily so at all. Devaluation can, on the contrary, create the basis for conquering economic difficulties and becoming self-reliant. The question is really: will the present devaluation of the rupee help the Indian economy to move forward, as happened after the devaluation of 1949 and as happened in Britain, France and Yugoslavia whose examples have

been surveyed? Or will devaluation, as happened in Indonesia, make no difference to spiralling inflation?

Given India's political stability, the determination to channelise both public and private expenditure into productive fields, and the international goodwill and assistance available to us, there can be no doubt about the answer.

EARLIER HOPES

GOVERNMENT announced its decision to change the par value of the Indian rupee from Rs 4.76 to a dollar to Rs 7.50 to a dollar with effect from 6 June 1966. This represented a decline in the external value of the rupee by 36.5 per cent. In effect it meant that the price of foreign exchange in terms of Indian rupees went up by 57.5 per cent. Along with this measure, export duties at varying rates were introduced on the principal items of traditional exports. In each case, however, a fair margin was left to the exporters as a measure of export promotion. Import duties were also suitably adjusted.

The decision to devalue the rupee represented, in a sense, the formal recognition of the situation which was already developing. Apart from the fact that the Indian rupee was quoted at a considerable discount in unofficial markets, official policies themselves had created in practice rates of exchange which were far below the old par value. The premium on import entitlements, for instance, implied an effective rate of exchange varying from Rs 6.5 to about Rs 8 to a dollar depending on the rate of entitlement and the extent of the premium. The National Defence Remittance Scheme had also shown that at a rate sufficiently below the old par value, it would be possible to attract substantial remittances from abroad.

Apart from the recognition of the prevailing situation, Government was impelled to take this major step in the interest of providing a stable and enduring solution to our balance of payments. It has been said that a large part of our exports moved without assistance and that in their case devaluation would not result in additional foreign exchange earnings, but, in fact, may involve a loss since the fall in foreign prices may outweigh our ability to increase the volume of exports. This argument is plausible but not quite true. Over the last few years, even our traditional exports had to be given assistance. Tea and jute, for instance, were given assistance in the form of tax credit certificates. If allowance is made for this, well over 70 per cent of India's exports moved only with the help of assistance in one form or another and in the case of newer manufactured goods, the assistance had to be substantial. The danger of a fall in foreign prices of traditional commodities is sought to be countered by the levy of appropriate export duties. Government will not hesitate to vary the rates of duty in accordance with the needs of the situation. While during the current year, supplies may be inelastic because of the drought last year, the response of supplies to relative price changes can be quite large over a period of time. In a number of export industries, investment was inhibited in the absence of an adequate and certain forms of incentive. In so far

as devaluation will place substantially larger amounts in the hands of export industries, the much desired diversion of resources for the development of exports can be expected to take place.

The scepticism about our capacity to increase exports is not justified over a long period—neither supply nor demand is inelastic over the whole range of our products: devaluation will enable the full export potential of our economy to be realised over a period of time.

Government had already taken determined steps to encourage import substitution through a substantial increase in import duties. While this process could have been carried further with the levy of further import duties, this would have been only a partial solution to our balance of payments since it would not have proved beneficial for exports. The choice between higher import duties and a change in the exchange rate in order to achieve the desired restraint on imports also rested on the fact that a substantial proportion of our imports are financed by foreign aid. A mere change in import duties would have put up the cost of projects, including those financed by foreign aid, without a corresponding increase in the rupee resources accruing to the projects. A change in the exchange rate on the other hand, would mean an increase in the rupee value of foreign aid and in so far as projects are financed by foreign assistance, there would be no immediate ways and means problem.

The major consideration in favour of a change in the exchange rate, as opposed to equivalent alternative solutions which would work primarily through the fiscal system, was that a change in the exchange rate would be a more general form of incentive and disincentive and would cover all invisible transactions in addition to imports and exports. There are administrative difficulties in using a system of taxes and subsidies to encourage invisible earnings and discourage invisible payments. Devaluation also is a measure of such major importance and consequence that once it is taken, it creates stable expectations which no system of taxation and subsidies would do.

Basically, devaluation is a financial measure which seeks to influence decisions of numerous private individuals by a shift in relative prices. Devaluation results in the preferential treatment which society wishes to accord to those who export and the penalty which society wishes to impose on those who import. It implies a transfer of resources from those who import to those who export. The effectiveness of devaluation in practice, therefore, depends essentially on the extent to which relative prices should remain stable. Such a situation, even if it could be achieved, would amount in practice to an un-doing of devaluation. Prices of goods which are exported or are capable of being exported must rise so that internal consumption is restrained and resources flow into export industries. Prices of goods which are imported or which require imported materials, would also rise and thereby discourage imports. It is only to the extent that the rupee prices of internationally traded commodities rise in relation to the rupee prices of commodities which are primarily sold in the internal market, that devaluation brings about the requisite change in the direction of a better balance of payments. The task of policy

primarily is to prevent these desired changes in relative prices from degenerating into a general inflationary rise in prices.

A pronounced change in relative prices can be prevented from leading to a general rise in prices only by a tight rein over the growth of monetary demand. Fiscal and monetary policies have thus to be employed with even greater vigour than before to maintain an overall balance between supply and demand. An attempt must also be made to evolve a proper incomes policy so that money incomes do not rise out of proportion to the rise in productivity.

The effects of devaluation must be judged in conjunction with the measures Government announced for the liberalisation of imports. It is expected that with a freer flow of imports financed by aid, industry would be able to obtain its raw materials smoothly and in many cases even cheaper than before devaluation: the fuller utilisation of capacity which liberalisation will make possible should also help improve efficiency and bring down costs.

It has been said that the change in the par value of the rupee will increase the burden of repayment of external debt. It is, of course, true that the rupee value of the interest liability and repayment of existing external debt will go up. In foreign exchange terms, however, we shall be making the same payments as we would have made before. The increase in the burden of debt service is, therefore, primarily a problem of internal resource mobilisation. It must also be remembered that correspondingly the rupee value of all fresh foreign aid will also be higher than it would have been before devaluation. We do not have to export more in terms of foreign exchange to discharge our existing debt. Provided the foreign prices of our exports are held, the volume of commodities which we have to export in order to earn the same foreign exchange earnings as before to meet our debt service obligation, is no larger than before. The foreign exchange prices of many of our exports are determined by international demand and supply over which we have little control as our exports constitute only a small part of total world trade. In these cases, devaluation as such should have no effect on the foreign exchange price of exports. Government has taken protective action in the form of export duties in the case of commodities where foreign exchange prices might tend to fall without a more than proportionate increase in the quantum exported. Where devaluation makes it possible to increase total export earnings by offering a lower price in foreign exchange, there should be no objection to doing so if we are determined to increase export earnings. There is little reason thus to fear that devaluation necessarily reduced the foreign exchange price of our exports or that, to the extent it makes it possible to do so, such a reduction would be unwarranted in all cases.

Apart from the debt service burden, the cost of Government imports will also go up. On the other hand, the value of foreign aid will be larger. Tentative calculations indicate that on account of these factors alone, there would be a loss of about Rs 80 crores. The levy of export duties, the reduction in Central excise duties, especially on petroleum products, and the adjustments in import duties together may yield some Rs 100 crores. While there should be a saving on export

subsidies, there would be a substantial outgo on account of the subsidy on food and fertiliser. Altogether, it is estimated that the deficit of Government will increase by about Rs 100 crores. Government may also have to make additional provision for financial assistance to the private sector through the financial institutions. On the other hand, with liberalisation of imports financed by aid, there will be an augmentation of budgetary resources both on account of aid and customs duty on additional imports. Therefore, there will not be any adverse effect on the budgetary position and there may, in fact, be some improvement.

In the private sector, the cost of financing plant and equipment imported from abroad will increase and so will the cost of imported raw materials and components. If this results in a greater preference for the home market, it would be all to the good. But we would still need to import equipment which is not made at home. The increased cost of this equipment can only be met by better performance of industry all round: in suitable cases, the rise in prices of final products may be necessary. Government will consider measures to augment the flow of financial resources to the private sector to meet any transitional problem which may arise. Monetary policy will, however, have to continue to be restrictive in general. While genuine needs of industry will have to be met, the very purpose of devaluation would be defeated if all cost increases are financed by creation of credit. Over a wide range of our industries, cost increases will have the result of restraining expansion in undesirable lines and the resources so released could be diverted to industries which result in import substitution or larger exports.

A GRAVE BLUNDER

The government could have, and indeed should have avoided devaluation, if only reasonable precautionary measures had been taken earlier. We were not suffering from our goods and commodities being unsaleable abroad; it was lack of exportable surpluses rather than lack of foreign demand that had been our difficulty all along. Devaluation by itself would, therefore, not increase our exports appreciably. Insufficient and poor methods of production in industry and agriculture, an insatiable domestic demand springing from a fast-growing population and rising incomes, under-utilised capacity, an un-co-ordinated export policy which permitted different Ministries to pull in different, even opposite directions—these were the real major factors inhibiting exports.

The fact that after devaluation the Government has been able to announce a liberal policy in respect of maintenance imports is no argument in favour of devaluation. Devaluation has not immediately increased our exports and foreign exchange earnings. Acceptance of devaluation has only enabled the World Bank to offer special additional dollars for non-project aid. Even in respect of import substitution, no further incentives were needed in addition to, or beyond, what our chronic and phenomenal scarcities and lack of foreign exchange have already provided. The only effect of devaluation is to make all our essential imports more costly. The increased anxiety of the private sector of the economy will take quite

some time to be lightened. Meantime the inevitability of price increases in an already overheated and inflationary economy would have serious consequences in terms of higher wages and higher costs and also in terms of additional taxation required for resources for the public sector as well as for debt repayment. Devaluation could have been avoided if the Government:

(*a*) Had made a careful and critical budgeting of our foreign exchange resources each year;

(*b*) Had not resorted to ambitious investment and non-productive expenditure in excess of our domestic resources and a realistically based estimate of foreign aid;

(*c*) Had made a more realistic appraisal of the foreign exchange needs for maintenance imports;

(*d*) Had not let the capacity that had been built up to be so badly under-utilised—this despite steady and continuous warning;

(*e*) Had established closer rapport with the World Bank and convinced the Consortium of friendly nations of the need for a higher proportion of the total aid to be given as non-project assistance;

(*f*) Had not let the administrative machinery become such a serious barrier to production and progress and cause dismay to foreign and domestic entrepreneurs; and

(*g*) The Planning Commission had not so systematically confused needs and targets and believed that needs by themselves justified the level of targets.

The result has been that we have sought to live beyond our means, have wastefully spent our resources, have not attained our targets, have allowed performances to fall far below expectations, and have made friendly foreign countries feel greatly disheartened at the rigidity of the Government and the planners.

To counter the inflationary pressures inevitable as a consequence of devaluation, the following suggestions are made:

(*a*) The additional aid promised for maintenance imports should be quickly and efficiently utilised;

(*b*) Maximum production both in industry and agriculture should be attained as quickly as possible;

(*c*) Industry must be required to adopt a policy of discipline by which prices and incomes are not permitted to shoot up;

(*d*) Dividends should be voluntarily limited;

(*e*) The Government should avoid all unnecessary and unproductive expenditures for the next 2 or 3 years;

(*f*) The level of investment and other expenditure in the Fourth Plan should be limited to the level of the real resources available; and

(*g*) A policy of no increases in incomes, wages and salaries above the levels of productivity should be accepted and pursued.

Acceptance of self-reliance must be not just an emotional attitude but a firm objective.

The Indian economy has many sources of weakness, such as the lack of a modern and rationalised productive apparatus to meet the challenge of the pressure of demand from a fast-growing population with rising incomes. Agriculture, in particular, needs to be modernised, and there should be more scientific agriculture, utilising the modern, non-traditional factors of scientific agricultural production. Even our industrialisation, such as has been achieved, has been at too high a cost both in money and in real terms. We must, therefore, rationalise our industrial production as well. Devaluation will have at least one major beneficial effect. It will make the rigid, complicated and inefficiently administered control unnecessary. By releasing production from the shackles of Government control, the economy will gain a fresh momentum.

At the same time, the strength of our economy must not be overlooked. Over the years, we have built up and developed a highly trained and skilled man-power. One has only to visit some of the modern factories in the public and private sectors of industry to see what a large number of bright, highly skilled and exceptionally intelligent and competent young men have been added to the working force. Even in agriculture, the number of farmers imbued with ambition to produce the maximum possible, to apply the knowledge of science and technology and make farming a profitable industry is growing. The country has also come to realise that investment in education results in a big pay-off. Investment in education, technology and research is capital formation. Recognition of this must govern the rapid growth of our economy.

THE DOWNWARD TREND

The Finance Minister's remarks in the Lok Sabha on the price situation and the economic outlook in general once again underline the helpless drift and complacency that have characterised the day-to-day management of the national economy since devaluation. There were no reasons to believe that rumours of a fresh devaluation had any trace of credibility behind them, yet strangely enough, the Finance Minister denied the reports in a manner that was bound to magnify rather than reduce uncertainty and doubt. It was not long ago that a drastic dose of devaluation followed firm and unequivocal denials, and now when the Finance Minister rather tentatively observes that 'there is no question of further devaluation of the rupee *at the moment*', the impression created is certainly not one of confidence and stability. The phrase 'at the moment' may technically absolve the Finance Minister of the responsibility of having made a misleading statement if unforeseen developments overtook us, but this type of hedging was certainly superfluous in denying rumours about a second round of devaluation when we do not seem to be clear even about the purpose and results of the first dose.

It was attempted to show that devaluation had introduced no distortions in the economy and that there had been no particular rise in prices is supported neither by facts nor experience. If prices rose by only 3.4 per cent from June 5 to October 15, 1966 during the current year against 5.3 per cent during the corresponding

period previous year, the irresistible conclusion is that the official index and the numerous quotations and assumptions behind them are getting more and more divorced from the realities of the price situation. It is true that a number of fair price shops have been established during the year, but to assume that all retail purchases, especially of foodgrains, are made only at fair prices appears totally unjustified. Surely, the quantum of articles distributed through fair price shops at controlled prices has not attained such a level as to justify their exclusive use in the computation of the price index, without any weightage for essentials sold and bought at free market and black market prices. On the other hand, *The Economic Times* all-India wholesale commodity price index, which accords a reasonable degree of weightage to both controlled prices and free market rates, shows a steep rise from 154.4 to 176.3 between June 5 and November 3, a rise of nearly 15 per cent.

On the face of it, when money supply had been expanding at the rate of 9 per cent per annum, and production, both agricultural and industrial, had not shown any significant rise over last year's level, is it plausible that the price graph would defiantly remain stable, as the Finance Minister claimed! In fact, it was only some time ago that the Governor of the Reserve Bank, in an exceedingly frank and realistic assessment of the economic situation, admitted that 'in spite of all that we have done, prices have gone up'. His warning against the dangers of deficit financing, which continues as merrily as ever, and his view that taxation is also 'certainly having an inflationary effect' should serve as an eye-opener to those who consider the price spiral as something of a familiar companion to planned development. The harsh truth is that if the country continues to bear the heavy burden of devaluation with no effective plan for stepping up production and exports, and industrial strife and other bottlenecks keep on aggravating the inflationary malady, we may soon reach a stage when another round of devaluation may become unavoidable even to maintain the present deflated level of export earnings.

UNOFFICIAL RATES FOR DOLLAR AND STERLING SHOOT UP

THE UNOFFICIAL rates of dollar and sterling shot up to high levels at Bombay during the second week of April 1967. Sterling is quoted at Rs 32.25 and dollar at Rs 11.75. The spurt is attributed mainly to two factors. The recent drive by the Customs and Excise authorities to prevent contraband export of silver has had some effect. The export of silver was mainly meant for financing the contraband import of gold. With the silver export on the decline, more exchange is sought in unofficial markets by gold smugglers. Secondly, the recent strong rumours that there might be demonetisation of higher denominations of Indian currency and that new notes would be shortly issued generated a considerable demand for dollars and sterling. During the last few days, substantial amounts are reported to have been unofficially transferred to foreign countries.

IMMEDIATE REACTIONS

NEARLY A fortnight had passed since India reduced the external value of the rupee by 36.5 per cent. Barring the bewilderment caused by this unexpected, strong dose of devaluation and the revival of bullish fervour on the stock exchanges, there was no significant change in the mood of the country to warrant the hope that it would change its old ways. If devaluation were meant to be shock treatment to the powers-that-be in particular, and the people in general, there was no evidence of it having worked. There was no doubt plenty of debate on devaluation, but not enough realisation of what it called for to prevent a further devaluation in the future.

The first lesson to be learnt from devaluation is that everyone should work hard in order to increase production, and refrain from indulging in anti-social and wasteful practices. That certainly has not been learnt yet. A clear evidence of this can be had from the satyagraha (non-co-operation) that was conducted on the borders of Mysore-Maharashtra, not by any opposition party but by the Mysore wing of the Congress Party as a mark of protest against certain decisions of the Congress working committee on the quarrel between the two States over the possession of a few villages and towns. This is a typical instance of the continuing sense of irresponsibility that has retarded the economic progress of the country. Leading Congressmen of Mysore, including the former Deputy Speaker of the Mysore State Legislative Assembly, an ex-Minister of undivided Bombay State and some members of Parliament, led batches of volunteers to break the law, obstruct the movement of trains and court arrest. Thousands participated in this peaceful satyagraha and the daily arrests were in hundreds. These leaders and volunteers have obviously fallen a prey to linguistic emotions: they have forgotten the need of the hour, namely, national unity: they have neglected such productive work as they have been doing and, what is worse, are preventing others from performing their duties. At a time when these leaders and volunteers ought to be in the villages and towns explaining the implications of devaluation to the nation as a whole and exhorting them to work hard and produce more, they were instigating the people to obstruct the movement of trains in a variety of ways. The politicians in Mysore alone are not to be blamed. Their confreres in Maharashtra, including some of the Ministers, are also to be equally blamed. After all, it is they who first started stoking a dying fire.

Up in the North, the Punjabis had also been behaving in a similar fashion for quite some time, causing a partition of the State into two units. The establishment of two separate States, Punjabi Subha and Hariyana, is going to result in a lot of unproductive expenditure at a time when every paisa has to be saved. Many such instances can be easily recited, as for instance, the continuing riverine dispute between Maharashtra and Andhra Pradesh and the rival claims for Goa, one State fighting the other as if they were all independent foreign countries and not part of one single nation. Where is the sense of responsibility among the

leaders who engineer such strife among the people? If they cannot learn it and realise that everyone is Indian first and Indian last, if they cannot discipline their minds to eschew parochialism and linguism, how can they expect the common man—a worker in an office, or a factory or a farm—to accept the more difficult discipline, namely, the economic discipline? Can such a nation ever become economically strong and prevent another devaluation of the rupee in the foreseeable future?

Next to parochialism and linguism, inflation is the worst enemy of India. This enemy is our own creation. Right from the beginning of planned economic development, the authorities and a large section of businessmen have been underestimating the evils of inflation. They used to argue that a little inflation would not harm the economy and that a certain amount of rise in prices and cost of living was inevitable in a growing economy. They dismissed as exaggerated pessimism the argument that a little inflation would soon lead to big inflation, thereby debasing the value of the rupee. In the past ten years, the creeping inflation has yielded place to a virtually galloping inflation: we advisedly say 'virtually', as inflation has not yet reached the galloping stage: it is very near that stage and may attain that stage in the near future, if drastic steps are not taken to hold inflation in check.

The chief cause of inflation has been large scale deficit financing. For the whole of the Third Plan period, the authorities had planned for a deficit financing of no more than Rs 550 crores, but it has now turned out to be about Rs 1,400 crores, despite all the solemn promises of successive Union Finance Ministers that they would, on no account, exceed the target. Of the total of Rs 1,400 crores, no less than Rs 200 crores were incurred in the past year alone, that is 1965-66. This order of deficit financing has been incurred notwithstanding the heavy taxation (both direct and indirect) imposed by both the Central and State Governments which has brought in over Rs 1,100 crores more than the amount of additional taxation budgeted for the Third Plan period as a whole. A large part of these additional resources has been swallowed up by non-plan expenditure. Similarly, the heavy investments made in the public sector (and to some extent in the private sector too) have yielded no significant returns for a variety of reasons. All this has happened at a time when agricultural production has been lagging behind in the face of a rapid growth in population and disturbances caused by Pakistan and China.

The main reason for this brief recapitulation of the well-known facts of Indian economy is the need for giving the proper perspective to what follows. India can no longer follow the way in which it has been trying to develop itself. The growing pressure of population and the necessity for enlarging the employment opportunities cannot, of course, be ignored. Mr Asoka Mehta is perfectly logical when he says that a slowing down in the pace of economic growth at this stage of the nation's career will only stir up more problems for the future. But at the same time, one has to be practical enough to recognise that there will be a collapse of the economy and the future will become even more difficult, if the serious imbalances

in the economy are not promptly rectified. Everyone concedes that this job is not over with the devaluation of the rupee. On the contrary, devaluation is essentially a *de jure* recognition of a *de facto* situation. There are many other steps that have to be taken.

The most important thing to be done, however, is to give up with immediate effect deficit financing and those fiscal measures the impact of which on price levels is not far different from that of deficit financing. In other words, the Fourth Plan has to be of a very modest size, the emphasis being placed on utilisation of capacity already created and expeditious completion of projects in which a sizable capital has already been sunk. The past fifteen months in particular have shown that the Western countries do not always live up to the obligations expected of developed countries and that they import a lot of extraneous considerations while viewing the question of economic aid. (With the East-West cold war having disappeared and with growing intercourse with Russia, the West's fervour to provide foreign aid to the developing countries has tended to subside.) That the Sixties have been named as the Development Decade has been nearly forgotten by them. Accordingly, it will be prudent not to pitch expectations of foreign aid too high. While India must not give up its efforts to get as much foreign aid as possible, it must make sure of the available aid before launching on its development plans. Further, foreign aid should be sought only for the most essential projects, that is, projects the catalytic effect of which on the economy is high.

The public is impatiently waiting for concrete evidence of the Government's intention to follow more realistic economic policies henceforth. It is already sceptical if not cynical, of the statements made by its spokesmen. The behaviour of some Congress leaders only goes to strengthen its scepticism. There is a fear that, with the elections over, unproductive expenditure will go up rather than decline. In view of all this, it is necessary for the Government of India to win the confidence of the public by assuring it in a convincing manner that it means what it says in regard to fighting inflation. The public has no faith in the type of negative steps already proposed by the Government for holding the price line, for it has had enough of them in the past with no tangible results. What it wants are more positive measures such as substantial cut in Government expenditures, a smaller Fourth Plan than the one outlined last year, and the abandonment of all meaningless inter-state rivalries that mock at our claim of being a mature united nation.

CAUSES AND CURES

No country likes to devalue its currency. It is the circumstances which compel it to do so. The circumstances in which the decision to devalue the rupee was taken have to be examined carefully and dis-passionately. Their recurrence should be avoided. On the other hand, steps must be taken to see how our rupee can be made strong. Our economy has been ailing for a long time because:

(1) There has been large unproductive spending on the part of Government.
(2) Investment on some of the big projects did not increase output.

(3) Industry was not operating at full capacity.
(4) Agricultural production actually declined.
(5) Prices have been shooting up.

These are the inevitable consequences of our errors in planning policies and administration.

Since the last ten years, prices have been rising steadily. Until 1962, the price rise was within reasonable limits: after 1962 the price rise became steep and sharp. In the decade 1956-66, prices rose by 80 per cent: 55 per cent of this increase took place after 1962. The year 1962 marks a new phase in the Government Budget. After the Chinese aggression in October 1962, defence expenditure suddenly went up by Rs 400 crores per year. No one can quarrel over this. This may be true in the broader sense, but is it possible to step up both types of expenditures simultaneously? Our resources are limited. If more is spent on defence, inevitably less has to be spent on administration and development. This is a compelling economic necessity. Otherwise, prices rise and they did. Our prices rose much more than in other leading countries. In the last five years, prices rose by only 2 per cent in Japan, 7 per cent in Germany, 12.5 per cent in Pakistan, and 8.7 per cent in Venezuela as compared to 32 per cent in India. The Government did take a number of measures with a view to tackle the price problem. But none of these measures touched the main issue of increasing industrial and agricultural production and regulating Government spending.

A pre-condition for stabilising the price level is increase in agricultural production. In 1965-66, food output, as also output of agricultural raw materials, was considerably less than in the previous year. Foodgrains production was only 73 million tons as against the normal requirement of over 90 million tons. A major part of the shortfall was made good by imports. For this we had to seek assistance from foreign countries, particularly the U.S.A. The decline in agricultural production cannot be wholly attributed to bad monsoons. It is in part a reflection of wrong priorities. In the last three Plans, Government spent Rs 3,300 crores on agriculture. But there has not been that much increase in the use of fertilisers, irrigation, pesticides, improved seeds and agricultural implements. Our land productivity is low. Unless it is stepped up by the use of these inputs, it will not be possible for us to achieve self-sufficiency. Our immediate goal should be to use at least 3 million tons of fertilisers per annum. These, along with the supporting programmes like irrigation and use of other inputs, will increase our production in an adequate measure. Agriculture is important not only because it provides food but also because it produces the necessary raw material for our export industries. The stability of the internal and external value of the rupee depends upon the health of our agriculture.

The shortfall in agricultural production and the rise in prices prevented any improvement in export performance. In the last 3 years, i.e., 1963-64 through 1965-66, our exports have been more or less stagnant at about Rs 800 crores. Even this level of exports was achieved after the stimulus provided by the various

export incentives including import entitlements, cash benefits and tax credit schemes. Exports are important because they have to finance our import bill. Before devaluation, we imported goods of the value of Rs 1,400 crores and exported goods of the value of only Rs 800 crores, the trade gap being made good by foreign aid. The three years before devaluation were characterised by the widening gap between exports and imports. This could not go on.

In early 1965, it became difficult to find adequate foreign exchange to pay for our imports and service the loans. Our foreign exchange reserves came down to an extremely low level. In March 1965, therefore, a loan was taken from the International Monetary Fund for \$200 million. Imports were cut down drastically. Import licences were suspended for three months, April–June. In 1965 a supplementary budget was introduced, designed mainly to impose heavy duties on imports. The yield from these duties in a full year was Rs 101 crores as compared to total customs revenue of Rs 397 crores in 1964-65. Further, Government introduced two new schemes, *viz.*, the Gold Bond Scheme and National Defence Remittance Scheme. In the meantime, aid became slow and foreign exchange difficulties became acute.

The decision to devalue was taken in the context of the situation described above. If devaluation had become inevitable, then the root causes can be found in three principal areas:

1. Rise in prices occasioned by excessive Government spending along with shortfall in agricultural production.

2. Rigidity of exports resulting from rise in internal prices relative to world prices.

3. Delay in import substitution because a number of industrial schemes in the public sector like steel, heavy engineering, heavy electricals, fertilisers, etc., did not fructify in time.

Devaluation has to be supplemented by other measures. Otherwise it will push our country into greater difficulties. Government announced the liberalisation of imports. This was a good beginning. But it was only a beginning. Many other policies have to be modified so that enterprise may be free and production may be maximised.

What are these other policies which call for change?

1. People must be given opportunity to invest in any industry. Without such opportunity, it would not be possible for substitutes to be developed or new export industries to be established. It will ensure, at the same time, greater competition, encourage efficiency and reduce costs. Therefore, it is necessary to liberalise the industrial licensing system.

2. Development of industries should not be impeded by controls on prices and distribution.

3. Industry must have adequate rupee resources. This has become particularly important because to maintain even the same rate of production it will now be necessary to have larger rupee resources. The cost of imports has gone up by

57.5 per cent. It is estimated that for private imports alone, the cost will be higher by Rs 345 crores. On this larger import value, importers will also have to pay more by way of customs duty.

The shortage of finance is not a new phenomenon. It existed long before devaluation. The high level of taxation and the credit controls of the Reserve Bank of India have obstructed the natural flow of funds to the industrial sector. Share prices have declined and industries have been finding it difficult to float new issues successfully. Even bank credit has been made scarce.

It is now imperative that Government should take a new look at the financial situation and devise bold means to overcome stringency. These should include: (*a*) Reduction of credit controls. (*b*) Provision of larger assistance by financial institutions. (*c*) Reduction in taxation, particularly on corporate and individual incomes.

4. Government have to provide incentives to such items of export where the advantage created by devaluation is less than the benefit under export incentive schemes which were withdrawn. Export duties have also to be reviewed from time to time.

5. Government have to ensure that further fall in the internal value of the rupee does not take place. For this purpose, the Central and State Governments and local authorities have to reduce their expenditure drastically, whether plan or non-plan.

6. All projects in the public sector on which some investment has been made have to be completed as expeditiously as possible. In the selection of new projects, it should be ensured that investment is quick-yielding and the output per unit of investment is high.

7. There is also scope for reducing non-productive expenditure in private industries. Many productive units are saddled with excess labour force. This increases cost. We have to evolve suitable schemes of rationalisation without tears and increase productivity. In this, the co-operation of trade unions is of great significance.

8. Immediate measures should be taken to increase agricultural production. This can be achieved only when there is greater use of fertilisers, irrigation, improved seeds, agricultural implements and pesticides.

The strength of the currency ultimately depends upon the level and growth of production. Unfortunately, in the past three years, our agriculture did not come up to expectations, neither did our industrial output increase fast enough. Therefore, everything possible has to be done to step up production all-round. In particular, economic policies should be made liberal, planning realistic, and administration efficient. Only if we succeed in these fields, shall we be able to increase production, strengthen our rupee and achieve progress.

RECOVERY MEASURES

Why should the rupee have been devalued? Or, to put it differently, could the devaluation not have been avoided? This was the question on which a storm of controversy arose immediately after the official decision was announced late in the night of Sunday the 5th of June, 1966. With devaluation becoming a *fait accompli*, the controversy has since largely subsided. Considering that there is no question of the Government reversing the decision, one may say that what is still going on is only of academic importance. But the controversy has served to bring out vividly the vital urgency of solving the plethora of post-devaluation problems so as to minimise the adverse effects of devaluation on the one hand, and ensure the fulfilment of the two primary objects of devaluation, namely, increasing production and boosting exports on the other.

The appropriate question now is: What next? The answer to the question depends on the Governments (Central and State), the industry, the trade and the public in general. It is the attitude of the Governments, especially the Central Government, that is the most important. What the Government should do has been clearly spelt out by the Federation of Indian Chambers of Commerce and Industry. The Indian Merchants' Chamber has put forward a seven-point programme of action to correct some of the imbalances and distortions that have either already crept into the economy or may arise in the near future as a result of devaluation. Briefly summed up, the programme envisages the adoption of the following measures:

1. Import duties on capital goods and vital raw materials should be abolished.
2. Export promotion schemes should be restored with such changes and modifications as might be deemed necessary to suit altered conditions.
3. A continuous watch should be kept on the effect of the levy of export duties on a number of export items following devaluation, so as to facilitate suitable adjustments of duties as demanded by circumstances.
4. The procedure regarding grant of import licences should be streamlined and imports of essential raw materials and components should be facilitated on an increased scale in order to assist greater utilisation of installed capacity and increased production.
5. Fulfilment of pending import commitments in respect of capital goods required by new industrial ventures in the process of being set up should be assisted with finance at a reasonable rate of interest.
6. Financial institutions should be persuaded to modify the terms of loans to industries with a view to suitable extension of period of repayment of these loans.
7. Excess amount now payable in respect of capital goods imported after the date of devaluation, as also capital goods imported prior to that date on deferred payment, should be allowed to be capitalised and depreciation allowance and development rebate thereon be allowed under the Income-tax Act.

There is much to commend in these measures and the Government should not find it difficult to implement them. If, however, the measures are to meet with full success, they will have to be supplemented by certain positive steps in other directions too, in order to facilitate increase in production which alone, as the Indian Merchants' Chamber rightly points out, help keep the economy on a sound footing. The three specific steps suggested by the Chamber are:

(*a*) The process of decontrol already initiated should be carried further.

(*b*) An immediate review of the credit policy should be undertaken with a view to enabling the industry and trade to secure adequate finance at a reasonable cost. In particular, the liquidity ratio of the banks needs to be reduced to enable them to meet the larger working capital requirements of industries. From this point of view, steps will have to be taken to liberalise the Bill Market Scheme.

(*c*) The fiscal and economic policies must be so modified as to give a stimulus to savings and investments in new industries and facilitate fuller use of installed capacities. Avoidable factors which come in the way of factories working round the clock have to be removed. It is in this context that the advisability of introducing a system of staggered holidays and a reduction in the number of paid holidays requires to be prominently considered.

While all these measures are of a general nature, there is the imperative need for taking special steps designed to remove some of the serious obstacles to increased production that are in the way of a few industries which play a vital role in India's economy as valuable earners of the much needed foreign exchange. The three biggest exporting industries are jute, tea and cotton textiles. The plea of the jute industry for ensuring of imported raw jute at economic prices is pertinent. The industry which is already working at a loss, cannot be expected to meet the additional cost on raw jute imports (estimated at about Rs 23 crores on an import of 1.5 million bales) as a result of devaluation. The tea industry's plea for relief is also quite reasonable. The United Planters' Association of Southern India is not indulging in any exaggeration when it says that, with the imposition of the stiff export duty (Rs 2 per kg.) on tea, devaluation has not given the tea producers any special advantage in augmenting exports, especially as the authorities have ignored the burden imposed by the latest award of the Wage Board and the increases in other cost elements. The U.P.A.S.I. has therefore urged the Government to reduce the export duty, lower the import duties on tractors and harvesting equipment, and liberalise imports of pesticides, weedicides and allied chemicals, generating sets and furnace oil. As regards cotton textiles, there should be fewer controls. Besides, care should be taken to see that the prices of indigenous cotton do not shoot up.

The four other important items of exports are oilcakes, manganese ore, pepper and tobacco. The exporters of oilcakes and pepper have urged for either revaluation of pending contracts or their exemption from export duty. In respect of manganese ore, it is suggested that direct free exports should be allowed in the place of the present channelisation of exports through the State-owned

organisation. The tobacco interests want the export duty to be waived or, otherwise, fixed on *ad valorem* basis.

Commending the aforesaid suggestion, the F.I.C.C.I. clearly told the Finance Minister when it met him recently that the efforts to hold the price line, to increase exports, to develop indigenous substitutes for imported materials and to make economic growth self-sustaining would not be effective without stepping up production to highest measure and widening its base to the fullest extent.

The Finance Minister is reported to have assured the Federation that the Government would liberalise essential imports to the maximum extent possible depending on the availability of resources and relax controls as far as possible. Welcome as his assurance is, its fulfilment depends on the availability of foreign aid on the scale expected by this country at the time of devaluation. Till the time of writing the eagerly expected announcement from the World Bank has not come. ($1280m. aid has been announced recently.)

SAVE FROM FURTHER FALL

If the rupee is saved from further deterioration and stabilised at least at the present level, there can be reasonable hope of slow and steady progress. If it is allowed to breakdown, the middle class will be wiped out, all banks and insurance companies will become insolvent and social conflict and political chaos will become inevitable. Since 1952, the prices had more than doubled and the internal value of the rupee had become less than a half of its former value. An even more alarming fact is that one-third of this depreciation occurred in the last 18 months. Inflation is like consumption and if neglected at the earlier stages, would wipe out the value of the rupee completely, and reconstruction of the nation's currency would have to start afresh, beginning with an entirely new rupee. The immediate result of the complete break-down of the rupee would be the elimination of the middle classes and immediate drift towards dictatorship of the right or the left. Resort to deficit financing should be avoided by enforcing balanced budgets at the Centre and in States, strictly confining investment to what can be obtained by public (not Reserve Bank) borrowings and foreign assistance. If the Government refused to permit any increase in prices of all those goods and services which were under the control of the Government and issued foreign exchange on the strict conditions that prices were not to be increased for a period of say three years, the economy could be stabilised. The food problem could be tackled only by part procurement directly from the agriculturist, to be distributed through fair price shops to the poor in urban areas and ensuring a completely free market throughout India for the grain not procured. These opinions and practicable measures require great strength and courage to adopt and stick to them for a sufficiently long period. To the extent that this required curtailment or postponement of planning, there should be no hesitation in adopting the necessary measures.

COMMERCE MINISTRY'S FIGURES

UNION COMMERCE Ministry sources estimate that the drop in foreign exchange earnings between June and December 1966 was of the order of $100 million as compared with the corresponding period of 1965. The volume of exports declined in some commodities which are major foreign exchange earners like jute manufactures, tea and cotton textiles. The fall in exports was not due to devaluation, but the consequent decline in earnings of foreign exchange. Commerce Ministry officials say that, while exports would have declined anyhow, export earnings in foreign exchange could have been protected had there been no devaluation. They add that a combination of a lower volume of exports of traditional items and a lower price per unit of them as a result of devaluation accounts for the bulk of the decline in foreign exchange earnings in the post-devaluation period. Exports of other articles picked up somewhat in the same period and higher exchange earnings from them would have taken care of the losses in earning from the traditional items, at the old rate of exchange, according to officials. So, had there been no devaluation, probably the entire decline of $100 million in earnings could have been obviated. The outgoing Commerce Minister, Mr Manubhai Shah went further. He believed that without devaluation, the country would probably be a net gainer of foreign exchange to the tune of about $25 million.

At the time of devaluation, it had been pointed out that the demand for India's major export commodities was inelastic—that is, the demand does not necessarily go up with a reduction in price. Unless the volume of export rises following devaluation, export earnings cannot obviously be maintained at the former level, and unless the volume of exports expands substantially, it will not be possible to increase the earnings above pre-devaluation levels. As a result of a lower volume of exports in some of the major commodities, India has not been able even to maintain export earnings from them at former levels. The exports of many other articles have also gone down. These are mica, lac, manganese ore and concentrates, tobacco, linseed and castor oil, iron and steel scrap and a few minor articles like pepper and chillies. There has no doubt been an increase in the exports of certain important articles like leather and leather manufactures, hides and skins, iron ore and concentrates, cashew kernels and certain other minor articles like cardamom and ginger but obviously the increase in the volume of their exports had not been sufficient to compensate for the loss in others.

In jute manufactures it is estimated by the Government that exports fell by more than 2 lakh tons which is roughly the order of the shortfall in the supply of raw jute to the industry. In 1966, total production of tea in India was an all-time record. It was about 3 million kg. higher than the previous high of 372.5 million kg. in 1964 and about 10 million kg. more than the 365 million kg. produced in 1965. It has been argued that the levy of a specific export duty at Rs 2 per kilogram after devaluation neutralised almost entirely the benefit from devaluation, particularly for lower-priced teas. The position was rectified only in November

last when a slab system of export duty replaced the flat rate, the duty ranging from 80 paise to Rs 3 a kilo. The total quantity of tea exported in the calendar year 1966 was 117 million kg. as against 200 million kg. in 1965.

The tea interests attributed the fall primarily to the dislocation caused to the trade following devaluation and levy of export duty. The President of the Indian Tea Association Mr E. H. Hannay said at the recent annual meeting of the Association that 'tea interests are trying to persuade the Government to levy a more straightforward and simpler *ad valorem* duty so that it can be collected without any difficulty'. The present thinking in the Commerce Ministry is that even the present duty is an *ad valorem* duty in a way and what the tea industry needs are 'structural changes' rather than duty changes to make Indian tea more competitive in world markets. The Commerce Ministry also feels that tea exports for January-March 1967 tended to be higher than during the same period of 1966 and that there was still reasonable hope that the exports for the financial year 1966-67 would not fall far short of the performance in 1965-66.

In cotton textiles, the Ministry of Commerce points out, devaluation and the simultaneous withdrawal of the export promotion schemes upset the trade's expectations. Markets in which India had promoted and successfully gained a foothold in the exports of finished fabrics like dress materials in the U.S.S.R., khangas and printed poplins and voiles in East Africa and Ceylon, pruned their purchases. Exports of other articles like towelling, bedsheets and apparel which had penetrated a number of new markets got a bad jolt. In brief, efforts made to diversify exports suffered a setback. Exports were practically stalled immediately after devaluation, and when they were resumed briskly after some months—with the continuance of incentives on pending contracts and their revaluation with some countries like Ceylon, Tanzania, U.A.R. and East European countries—the scale of shipments was reduced.

Export performance in textiles in almost all the Asian markets was most distressing according to the official papers. Persian Gulf ports recorded the steepest fall in offtake. Voiles and superfine cloth which are the main varieties of export to these ports were receiving incentives which were simultaneously withdrawn and which ranged up to 69.5 per cent for processed cloth—higher than the advantage accruing from devaluation. Malaysia abolished preferential tariffs on Commonwealth goods, and exports to Indonesia, against the credit given to that country by India, had not yet commenced. Ceylon's purchases, against the credit extended to it, were limited. Exports to the United Kingdom were down in the second half of 1966, partly because of lower demand from U.K. buyers and partly because Indian exporters slowed down their shipments in anticipation of the withdrawal of the import surcharge of 10 per cent by the U.K. Government from December. As regards European markets, among the E.E.C. countries, France and Italy increased their off-take but in the others, it declined. Indian textile exports fell far below the quota allotted to them in both the British and West German markets. The dismantling of all remaining tariffs in the countries of the European Free Trade Association since the beginning of this year will make things a little more

difficult for Indian exports to other countries of Western Europe, though Commerce Ministry officials with intimate knowledge of Europe do not think that the impact of the EFTA changes will be very significant for Indian exports. They argue that such tariff changes affect trade moving under normal conditions, whereas Indian textile exports move under artificial conditions anyhow. The structure of the export sector of the industry must change, as in the tea industry, if textiles are to benefit by devaluation and without export subsidies. Only Russia and East European countries increased their purchases of Indian textiles substantially last year, but these do not bring in hard currency. Another country which increased its purchases last year was the United States and this of course improved hard currency earnings on the textile account.

The set-back to exports has exposed how much they are at the mercy of agriculture. It would be very unnatural if India had a third bad year in agriculture in a row and the Commerce Ministry hopes that with a normal agricultural year, exports should stabilise in 1967-68. It is not so sanguine that they will begin to rise thereafter, in the conditions created by devaluation. But recognising that Indian exports must learn to live with devaluation, and that export incentives must necessarily remain restricted, officials think that the industry must now take the initiative to reorganise itself for exports. It is assured of adequate maintenance imports in the coming years. The results of the General Elections hold out the expectation that disinflationary policies will be pursued and they should help the industry to hold the cost line.

Officials cite the example of British industry which has met the challenge of exports through structural reorganisation undertaken on its own initiative. Indian industry has for so long been used to getting a lead from the Government that it will find it difficult to shake off the habit, but shake off it must. The ability of the new Government in Delhi to give industry the kind of lead it gave in the past 20 years is impaired in the altered circumstances of today—a fact which the authorities would like industry to bear in mind. They fear a leadership gap, with the Government unable to provide the leadership and the private sector unprepared to assume it. Generally, industry and trade must take stock of the political situation as it has now emerged and do some basic re-thinking on its own strategy.

Chapter III

INTERNAL AND EXTERNAL PHASES

GOLD BEHAVIOUR

After a long period of relative quietness, the gold market in India has suddenly livened up. The price of the metal was quoted at Rs 132 per 10 grammes about seven months ago—just before the devaluation of the rupee. After the devaluation on June 6, 1966, it rose sharply but briefly to Rs 147, but then declined almost steadily to Rs 136. But it has now increased to Rs 208. To some extent, the rise is seasonal and speculative in nature. For many communities in India, the present is what is called 'the marriage season'—that is, the season when a large number of young ladies carry away from their fathers' houses the gold and ornaments which the orthodox describe as a dowry and the pragmatists describe as a consolation prize for heavy-hearted bridegrooms. In the farming fraternity furthermore, this is a time of year when the post-monsoon harvests are being gathered and the cash has started flowing in; much of the cash that can be spared for long-term investment, in conformity with tradition, begins to flow into gold. Apart from the seasonal pressures, there are two notable pressures of a speculative variety this year. The first is that since forward trading in silver has been officially banned, the bulls who were normally in search of money and excitement have moved into the gold market. The second is that quantities of allegedly smuggled gold are said to have been seized by the Customs and Excise authorities during recent months. The supplies of the yellow metal actually in circulation in the market have, therefore, fallen short of the demand. But the disturbing feature of the whole situation is not that gold prices have risen in response to seasonal or speculative pressures, but that the rise, substantial already, is expected to continue. Although reliable statistics are inevitably hard to come by in so shady a business as the Indian gold trade, informed observers say that for some time after devaluation, the smuggling of gold into this country decreased—marginally at least. There are three basic reasons for this. First, since the smuggling is financed mainly by illegal foreign exchange transactions, the whole basis of the trade is disturbed by the change in the official external value of the rupee. Secondly, the notional if not also the actual, profits on smuggling decreased; some of the less dedicated and less courageous operators may have therefore dropped out of the business. Thirdly, there was an under-current of feeling, however vague and weak, that with devaluation India was going to stabilise her external payments position and her currency. It came as a surprise to many, for instance, that after the devaluation of 57.5 per cent, gold prices rose for a while but very soon fell back to the levels from which they began. The black market value of the pound sterling meanwhile fell gradually, but almost steadily, from Rs 32 to Rs 29 (as against the official rate of Rs 21). In other words the demand for gold did not appear to rise, while the demand for

illegally acquired foreign exchange appeared actually to decrease. The latter decrease was probably accentuated by the fact that with the extensive liberalisation of commodity and maintenance imports after devaluation, businessmen no longer found it necessary to finance a proportion of such imports through illegal transactions. The somewhat greater surprise came early in September when the Government blew a gaping hole in its own gold control policy—but gold prices rose little, if at all. The amended policy was aimed ostensibly at tightening the control over the trade in primary gold, but making the manufacture of ornaments almost wholly free. Previously, new ornaments could not be of more than 14-carat purity, although old ones could be melted and redesigned without reducing purity. The changes were made under strong political pressure from gold-hoarding Congressmen, against the recommendations of an official committee, and with an eye to recover the political affections of the goldsmiths who had been rendered unemployed by the earlier and stricter policy. But the boom in ornament manufacture which many had expected, as a result of the change in the policy, did not develop. Perhaps those who wanted ornaments were getting them made free already, without bothering too much about the controls and restrictions which the Government had chosen to impose. Another factor responsible for pushing gold prices up may have been the famine in such areas as Bihar and eastern Uttar Pradesh: farmers have traditionally sold gold and ornament hoards in time of adversity, and these should have helped to augment market supplies, but gold supplies had become nominal long before that. But with the sharp increase in gold prices during the past few weeks, most people believe that such bearish factors as may have existed hitherto have now begun to vanish. The rise, in other words, is not purely in response to seasonal or speculative pressures: it marks the resumption of a secular, long-term trend that was temporarily halted by devaluation and certain other factors. The main reason why the rise has been resumed, on this analysis, is that inflationary pressures have strengthened noticeably and so, confidence in the rupee is weakening. As the food shortage is sure to worsen in 1967-68, the increase in the commodity prices and in gold prices, is likely to continue. The virtual removal of all restrictions on ornament manufacture could facilitate more active trading and lead to a more rapid increase in demand than these have been seen so far. Gold smuggling hitherto estimated to vary between £25 m. and £70 m. per year, could in that event also increase.

TEA

World production of tea in 1966 is certain to reach the highest ever so far, and according to the International Tea Committee's report to the Statistical Bulletin for November 1966, there has been an increase in the crop of every producing country in the world. The following Table shows the comparative production figures for the first nine months of 1965 and 1966 for North-East India, Pakistan, Ceylon and the African countries, and those for the first eight months for Southern India and Mozambique:

TABLE 1

WORLD TEA PRODUCTION

(*in million lb.*)

Country	1965	1966
N. E. India	442.7	452.5
South India	134.8	140.9
Pakistan	40.4	43.6
Ceylon	371.7	372.4
Kenya	29.9	40.9
Uganda	12.4	17.6
Tanganyika	7.8	10.8
Malavi	21.1	27.8
Mosambique	18.7	25.9

This was the first time when due mainly to favourable weather conditions, there was a spurt in tea production throughout the world. It has been mentioned that even without this increase, there was already a world surplus of about 30 million lb. of tea. The U.S. Department of Agriculture has estimated that this year's world crop would be less than 2,130 million lbs., being an increase of 3.6 per cent over the 1965 crop. At the same time, in spite of the best efforts, this increased production is not likely to be matched by increased consumption and a further addition to the world surplus therefore seems inevitable.

One of the important contributory causes for this increased production, other than the weather, is the persistent efforts of producers throughout the world to extend their acreage and to rehabilitate the old and uneconomic holdings. This policy was to some extent necessitated by the need to bring down the cost of production and offer the teas at competitive prices. But it has boosted production to such an extent that the additional weight of tea in the world market has begun to depress the prices all round. The situation therefore calls for urgent action on the part of the producers.

It is not surprising that faced with the grave consequences of a steadily mounting world surplus, India and Ceylon, the two largest world producers of tea, are discussing once again the prospects of reaching an agreement over the export of tea. Official reports from Ceylon speak of the deep concern felt in that country over the persisting drop in tea prices and the proposals to help the small growers with some form of subsidy to tide over the present crisis. The country is facing a minor economic crisis because the export earning from tea alone is expected to fall short of the estimates by Rs 8 crores. In India, notwithstanding devaluation which was intended to give a fillip to exports in respect of quantity and price, there has been a sharp decline in both. Exports from North-East India between the period of July 1 and October 7, 1966, totalled 101.3 million lbs. only, compared with 119.1 million lbs. in the corresponding period of 1965. South India, in spite of the larger

crop of this year, exported 49.6 million lbs. only during the period between April 1 and September 30 compared with 52.1 million lbs. during the corresponding period in the previous year. As far as prices are concerned, although quality grades of North-East India realised on the average a slightly higher price up to the end of September 1966, compared with the previous year, there had been a decline in the prices of the common varieties, while in South India, both quality teas and common varieties suffered a sharp decline. The reason for this decline is to be traced not only to devaluation which imposed an unduly high incidence of export duty on the common varieties, but also the large surfeit of teas in the world market. In the present context of world output overtaking consumption, the Government should seriously consider re-introducing the former International Tea Agreement in a modified form, namely, by restricting the quantity of export from the producing countries and by associating the consuming countries also in the regulation scheme as in the case of the International Coffee Agreement. There are good reasons to believe that Ceylon which all along has advocated a renewal of the International Tea Agreement, would support these suggestions in an attempt not only to tide over the present crisis but also to place the exports of the future on a firmer footing. A curb on exports would automatically be accompanied by an upgrading of the standard of manufacture.

In view of the surfeit of tea in the world market and India's own efforts to increase production to reach the targets prescribed for the Fourth Plan, international consumption should not be curbed. On the other hand, the Tea Board should prepare and implement a scheme for internal promotion so as to absorb the surfeit teas. It has been emphasised many a time that the internal market for tea is the strongest safeguard against acute fluctuations in the overseas market. It is significant that in spite of the Board stopping all promotional activities in the internal market, there has been no increase in the export of tea while internal consumption has been rising steadily. One must hope that the Government would make a pragmatic approach to this problem and alter its policy to meet the change in the situation.

There has also been a new awakening of the need for intensified world promotional measures to meet the world surplus. It is now generally recognised that tea will not sell unless it is accompanied by propaganda, and that this is the most important function of the producing countries today. Sir Hugh Tallack, a well-known expert on tea affairs, recently observed in London that the present situation clearly pin-points the pressing need for intensification and expansion of sales promotion throughout the world, as with the various tea producing countries striving to increase their outputs, the supply could well tend to get out of hand.

As mentioned above, devaluation of the rupee has not produced any improvement in the level of tea exports, but on the contrary, has caused some recession. The Government and some sections of the industry hope that the recent conversion of the duty from a flat rate to a slab-cum-*ad-valorem* rate would reverse this experience and bring about higher exports. Such a hope would be certainly justified in regard to the export of the common varieties which until now were

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fetching anything up to Rs 5 or Rs 6 a kilogram. In such cases, the relief in duty is substantial. But the levy of a rate in excess of Rs 2 a kilo in respect of certain high priced teas would definitely be a disincentive to the production of such tea. The re-imposition of an export duty itself at the time of devaluation was sought to be justified on the plea that it would help to retain the foreign exchange earnings, but this hope has been greatly shattered by actual experience and hence an increase in the rate of duty at any stage is both illogical and inadvisable. The only aim seems to maintain the level of revenue to the exchequer at all costs. It would have been far better to adopt a lesser rate of duty, say Re 1 uniformly applicable to all teas. This should be the basis on which the price of tea would be arrived at for the levy of the new slab-cum-*ad-valorem* duty, since the price of tea sent to the auction centres and particularly London, cannot be ascertained until several weeks later.

It is, to say the least, astonishing that the Tea Board should continue to forecast crop and export estimates which cannot be justified either on past performance or on any reasonable future projections: the Board has been consistently wrong year after year in making such estimates, and its latest estimate of an export performance of 235 million kg. of tea during 1966-67, not to speak of the further comment that the estimate 'is on a conservative basis', fills one with amusement! The expression that 'devaluation is a step in the right direction', is also symbolic of the unbounded optimism with which the Board seems to view its problems. It is time that someone brought the Board to realise the hard facts.

JUTE

The jute industry is feeling alarmed at the continued unprofitability in its working. This prolonged unprofitability is seriously injuring the health of the industry and the Indian Jute Mills Association, which has closely examined the working of the industry, considers the tendency a serious threat to the very existence of the industry. The jute industry's total net profits for the 12 months ended March, 1966, amounted to a mere Rs 1.61 crores. Before the payment of preference dividend, most companies made only marginal profits or incurred losses and in some cases heavy losses. A majority of the member units of I.J.M.A. fear that they will show even worse results in the current financial year.

Following devaluation, the profitability of the industry, compared with the average for all industries, was also disappointing. In 1964-65, gross profits as percentage of sales were only 4.1 per cent for jute textiles against 10 per cent for all industries. Gross profits as percentage of total capital employed worked out at 5.5 per cent for the industry, compared with 10.3 per cent (for the former case) for all industries. This is the third year in succession that the industry has fared badly, causing a severe erosion of its cash resources. The main factor responsible for this development is the price of raw jute which has been uneconomically high for many months and which again is the result of three poor jute crops, with fibre out-turn falling far short of effective demand. The cumulative effect of successive short crops on the industry's production was seen

last year when the total output of finished goods by the member mills of I.J.M.A. dropped to 11,20,000 tons from 13,35,000 tons in 1964, a decline of 16 per cent. A major part of this reduction in Indian output represents an accretion of business to jute industries in other countries, particularly Pakistan, with the balance going to substitutes for jute. The shortage and high prices of raw jute which affected production and profitability of jute manufactures, caused a sharp drop of 20.6 per cent in Indian exports of jute goods during 1966 at 7,37,500 tons compared with 9,29,200 tons in the previous year. A loss of market of the order of 1,91,700 tons in a single year constitutes a serious set-back to the progress of a number of diversification and product development plans being vigorously pursued by the I.J.M.A. both in India and overseas, but what is more damaging in the immediate context of India's planned development is that it represents a staggering loss of foreign exchange. There should be no attempt to seek to explain away the past years' working of the industry as accidental. The trend and pattern of development in the world jute goods trade have clearly demonstrated the basic weakness of the Indian position. Jute goods from this country are giving way to Pakistani products and synthetics because relative competitive weakness stems principally from shortage of raw jute, prices of jute goods, and from the chronic low profitability of jute manufacture in India. The association has made repeated representations to the Government for effective and corrective measures such as would improve the jute industry's profitability as well as competitive strength. In the absence of official action, the declining trend in the export of standard jute products, particularly sacking, persists. They fell from 4,58,400 tons in 1948 and 4,45,000 tons in 1955 to 1,70,100 tons in 1966!

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It is a pity that while the jute industry, our largest single foreign exchange earner, has been experiencing serious difficulties, the Union Ministry of Finance has assumed an ambivalent posture regarding the way in which they can be tackled. Devaluation has adversely affected the economics of this industry. Heavy export duties have robbed it of whatever price advantage it should enjoy, while limited import subsidies have been found ineffective. Since June 6, 1966 exports have been steadily deteriorating. This deterioration cannot be ascribed wholly to buyers' resistance or to congestion in ports. For instance, outside the rupee trade area, sacking exports have gone down by nearly 70 per cent, while Russia has hardly bought any jute goods from India since devaluation, despite mutually agreed rewriting of contracts. The overall position is such that between January and September 1966 total Indian foreign exchange earnings from jute goods have gone down by $37 million (Rs 27.75 crores) as compared to those for the corresponding period in 1965. If the trend continues, foreign earnings may be down by as much as Rs 37 crores in a full year. Since Pakistan has a price advantage over us, the business we have lost has passed to her. Soviet Russia has placed heavy jute orders with Pakistan and is reported to be paying for its purchases in convertible currency. Our jute industry rightly contends that these factors would continue to

operate, especially if we failed to take proper steps expeditiously to make Indian prices more competitive.

Another difficulty pertains to the procurement of raw jute from domestic as well as foreign sources at reasonable prices. The Indian jute industry would need something like 17 lakh bales this year from foreign sources, and nearly 70 lakh bales from the domestic market. The trade contends that before December this year, it would hardly be able to import 5 lakh bales, which will qualify for Government subsidy. Since there is no assurance that raw jute subsidy would continue after December, 1966, domestic producers seem to be holding back stocks in expectation of better prices early next year. For the last three seasons, domestic producers have received attractive prices. This has enhanced their holding power, a fact that has been confirmed by price movement during the last few months. Generally, at the time of the Pooja holidays there used to be a rush to sell raw jute and prices used to fall in consequence, but this has not happened this time (1967). In fact, within the last few days raw jute prices have gone up by nearly Rs 80 a ton, a ten that became even more striking after it was known that the Union Finance Minister was reluctant to extend the date of raw jute subsidy. Despite hopes expressed by senior Indian officials, prices of raw jute have not fallen in Pakistan. In fact, they have risen by £20 per ton as compared to last year. It is true that this year's crop in Pakistan has been good, but her domestic requirements have also increased as compared to last year. In any case, arrivals of raw jute from growing centres are a year-round operation, and not limited to the first three months of the season. There is also reason to believe that Pakistan is not encouraging the export of her raw jute to India as she is finding ready buyers in Western Europe and China. On the other hand, she has taken full advantage of cheaper raw jute supplies to extend her manufacturing operations, and consequently pose a serious threat to Indian jute goods exports. It has been computed that in sackings alone, Pakistan has a price advantage over India of Rs 600 (£28) per ton.

The problems of Indian jute have to be viewed in the perspective of other adverse international developments. First, both Pakistan and Thailand are seeking raw jute markets in China. Since Chinese agricultural production is estimated to be at least 50 per cent more than that of India, her packaging requirements must be in excess of ours. This means that if China siphons off a large part of raw jute available in international markets, the import into India would be seriously affected. Secondly, many countries are constantly trying to minimise the use of jute goods, for instance, Australian wool-packers are prone to use Japanese poly-propylene fabrics mostly because Japan, being Australia's large wool buyer, is pressing her to do away with jute wool packs. Poly-propylene substitutes have made some headway in America as well. Thirdly, more countries in Latin America and Africa are setting up their own small jute manufacturing industries which in the aggregate are bound to affect Indian jute goods exports. All these factors are making sacking the most vulnerable of our major products. It is, therefore, suggested that export duties on sacking be totally removed and on hessian and carpet-backing

materials, halved. Similarly, the subsidy on raw jute imports should be extended. Of course, the amount of subsidy could be suitably adjusted if prices in foreign markets showed a downward trend. It is to be hoped that the Government would urgently reconsider this matter and not wait till the situation worsened about the end of the year.

COTTON TEXTILES

The Union Government has finalised plans to de-license the cotton textile industry. The scheme was made known at the last session of Parliament. Steps are being taken to safeguard the interests of the de-licensed sector. The Fourth Plan target for production of cloth in the mill sector of the cotton textile industry has been provisionally fixed by the Planning Commission at 6,000 million yards annually as against the production of about 5,200 million yards in the last year of the Third Plan. This was decided after taking into full account the 5,000 million yards annual production target set for the de-licensed sector of power looms and handlooms, which produced about 3,200 million yards in the last year of the Third Plan. To achieve the target fixed, the mill sector has to expand its weaving capacity to the requisite extent. The existing loomage in the composite sector is of the order of 2.08 lakhs. The number of looms that would be required for producing 6,000 million yards during the Fourth Plan period would be 2.50 lakhs. In other words, more than 40,000 looms will be required to be established in the mill sector during the Fourth Plan.

For the Third Plan period, an addition of 25,000 automatic looms was programmed to achieve the production target. To begin with, however, licensing of 10,000 automatic looms was undertaken on a reasonable export obligation: the progress in the licensing was very slow as the mills were not enthusiastic about the installation of automatic looms. There has been no installation of looms under this licensing. Towards the end of 1963, the position was reviewed and, having regard to the slow pace of expansion of loomage in the mill sector, the existing spinning mills were given a general permission to install 100 looms and later 200 looms more to come up to a total of 300 looms, and composite mills were allowed to install an additional 10 per cent looms without any formality of case-to-case industrial licensing. Very few composite and spinning mills took advantage of this general permission. Exemption of the installation of looms from the licensing provisions, it is felt, would not therefore, lead to any additional capacity being established. On the other hand, when an existing mill or a new mill wants to establish weaving capacity which will enable it to produce good quality cloth at low cost, de-licensing up to 25,000 spindles, and 500 looms may encourage development of much needed weaving capacity in the mill sector.

It is stressed that the bulk of the machinery of the textile industry is old and out-moded and that in the weaving sector in particular, there is great need for introduction of automatic looms, at least to the extent of about 25 per cent of the existing capacity as against about 2 per cent at present. In Japan, more than 60 per cent of the loomage is automatic which produces flawless cloth. The modernisa-

tion of this sector is particularly urgent because of the need for the production of flawless cloth, to be able to compete in markets overseas. But the pace of modernisation has been distressingly slow. The country looks forward to the expansion of existing plants and new establishments utilising the latest technological advance. Also the cost of production of mill-made cloth and yarn can come down progressively with new and modern machinery.

So far as the power-looms are concerned, it has already been decided, on the recommendation of the Power-Loom Enquiry Committee, that having regard to the increased production of cloth expected on this de-licensed sector in the Fourth Plan period, an additional 1,00,000 power-looms should be installed. This expansion scheme has been approved after providing for due protection to the hand-loom sector.

If 1,00,000 power-looms are not going to affect hand-looms, much less will 20,000 to 25,000 looms in the mill sector affect the de-licensed sector. As a matter of fact, many fewer looms than even this small figure are actually likely to be installed in the mill sector. A target of 6,000 million yards, for production in the de-licensed sector has been fixed in consultation with the Planning Commission for the Fourth Plan period, and the expansion that has been allowed in the power-loom sector and the reservations that have been made in accordance with the Power-Loom Committee's report in favour of the hand-loom sector in respect of cloth of common mass consumption with corresponding restrictions on composite mills, fully ensure that no encroachment takes place in the de-licensed sector. It is pointed out that following the Santhanam Committee's recommendations, the Study Team appointed by the Ministry of Home Affairs, in consultation with the Ministry of Commerce on the working of the Textile Commissioner's organisation, has strongly recommended that industrial licensing should be dispensed with for the installation of spinning capacity up to 2,500 spindles or composite capacity up to 25,000 spindles and 500 looms and that licensing should also be dispensed with where mills wish to undertake expansion of spindlage or loomage within their existing premises. The team felt that 'the removal of controls in this field will help in the development of the industry on healthy lines'.

One year after devaluation, of all the major Indian exports, cotton textiles have been the hardest hit by the lowering of the value of the rupee. In the twelve months following devaluation, the value of cotton textile exports has slumped to \$78 million from the previous annual figure of \$120 million. As a result of this huge fall, cotton textiles have slipped from third to fifth position in our foreign exchange earners. The exporters claim the Government's follow-up measures after devaluation were quite misdirected, apart from the long delay in their announcements. But the Ministry circles blame the exporters for excessive caution and lack of initiative. One of the major reasons for the textile export slump is the lack of sufficient incentive to export. Before devaluation, it was necessary for mills to export textiles of quality for maintenance and raw material imports. Moreover, under the import entitlement scheme, each exporter could make a profit of as much as 250 per cent on import licences.

But after devaluation, all these export incentives disappeared. Import liberalisation pretty well annihilated the profitable trade in import licences and foreign exchange which had been exceedingly scarce for maintenance and raw material imports, suddenly became abundant. The severe shortage of cotton and the steep rise in the price of imported raw materials actually resulted in the price of textile exports going up. Hence Indian textiles became less competitive in the world.

KHADI

KHADI SURPLUS stocks worth about Rs 4.5 crores are lying undisposed in different khadi institutions of various States. The Khadi Commission has been advised to seek the co-operation of the States and Union Ministers for the sale of khadi to various organisations such as hospitals and jails. Some other steps taken to dispose of surplus stocks include continuous and intensive efforts to sell khadi locally, reduction in prices of certain varieties of khadi, offer of special concessions to local buyers, and grant of a special rebate on sale of khadi during festivals of national importance such as Gandhi Jayanthi. Four hundred and sixty-eight Khadi institutions are working under the guidance of the Khadi and Village Industries Commission. Statewise, Andhra has 177 institutions, Assam 7, Bihar 9, Delhi 4, Jammu and Kashmir 2, Kerala 10, Madhya Pradesh 6, Maharashtra 15, Madras 6, Mysore 17, Orissa 6, Punjab 16, Rajasthan 17, Uttar Pradesh 132, Manipur 3, Tripura 3, West Bengal 36 and N.E.F.A. 2.

ART SILK

THERE HAS been a virtual landslide in the export of synthetic fabrics in the wake of devaluation with a steady erosion, both in the case of the quantum of shipments and the value of foreign orders. At present, the export trade in art silk fabrics has come to a standstill and most of the weavers have had to close down their units, especially those who had been catering for the export markets. Unless suitable incentives are given, it is apprehended that more and more foreign markets will steadily be lost to India. It is estimated that the total exports of synthetic fabrics between June and December 1966 reached only 145 lakh metres valued at Rs 191 lakhs against 245 lakh metres valued at Rs 261 lakhs during the same period in 1965. The exports touched a new low at around 37,000 metres in January. Even the performance noted between June and December, it is stated, would not have been possible but for the bulk shipments made by a few leading spinners in the course of fulfilling orders for their export of special types of yarn. Weavers, by and large, could contribute very little to the export of fabrics during the post-devaluation period. In as much as the benefit of devaluation has not been sufficient enough to cover the gap between the domestic price and realisable export price, India has had to suffer major set-backs in markets like Malaya, Singapore, Iran, Canada, East Africa and some markets in West Europe.

SOAP

Soap manufacturers recently announced a 3.50 per cent cut in selling prices with effect from 15 November 1966, following a decline in indigenous oil prices during the previous fortnight. Toilet soap prices have been reduced by 20 paise per kg. A standard size toilet soap as well as certain popular brands of washing soap will cost 2 paise less per cake and a standard washing bar soap 7 paise less. Oil prices have declined by about Rs 600 a ton mainly because of the removal of the ban on export of groundnut oil and seed from Gujarat by the State Government. Another important reason for the decline was that the new groundnut crop was expected to arrive in the market shortly. Soap prices were raised by 10 per cent on 8 September 1966 to absorb the major portion of a 15 per cent cost spurt that took place after June. Till the middle of 1966, the soap industry, according to manufacturers, used imported palm oil and tallow which cost Rs 1,725 a ton—such imported stocks met about 25 per cent of the industry's requirements of oils and fats. Since June 1966, the industry has been using only indigenous hardened oils which cost Rs 4,600 a ton. Following devaluation of the rupee, the industry requested the Government that soap manufacture should be accorded priority for imports along with the 59 industries approved by the Government. Repeated requests for imports brought only the assurance that the soap industry would be given import licences by the end of August 1966. The promised imports of oils became available towards the end of February 1967. Because of the delay in imports, soap manufacturers state that it has not been possible for the industry to bring prices down to the pre-devaluation level.

The manufacturers add that as and when imports are received, they will review the position in the light of the prices they would have to pay at that time for indigenous and imported oils. Soap manufacturers hold the Government or rather the bureaucracy responsible for the avoidable delay in importing the raw materials needed by them and consequently for their inability to reduce prices substantially. According to them, the decision to allocate Rs 6 crores worth of foreign exchange for the import of copra and palm oil was taken as far back as September 1966. However, bureaucratic red tape prevented any energetic follow-up action, leading to delays in the availability of essential and cheap raw materials which would have brought welcome relief to soap consumers and the industry.

EXPORT OF TRADITIONAL ITEMS

An official statement on export performance after devaluation shows that the shipment of cotton piece-goods in terms of volume declined by 16.7 per cent during 1966. The entire fall in off-take was recorded during the post-devaluation period. During January 1967, exports were roughly of the order of 315.7 lakh square metres against 398.9 lakh square metres during the corresponding month in 1966. Yarn exports also dropped from 10.7 lakh kg. in January 1966, to 8.0 lakh kg. Exports of apparel declined from Rs 31.2 lakhs to Rs 3.3 lakhs. An

analysis of exports of cotton piece-goods to various destinations during 1965 and 1966 reveals a sharp decline in off-take by the U.K., Aden, Persian Gulf ports, Kenya, Tanzania, Sudan and Malaysia. Exports to the U.K., particularly during the second half of 1966, were very much on a reduced scale. According to the analysis, the complete dismantling of all the remaining tariffs and quota restrictions by the European Free Trade Area from the beginning of this year has posed a bigger challenge and Indian cotton piece-goods will now have to face stiffer competition from Portugal and Austria. While exports to France and Italy were better, exports to other markets in the European Economic Community declined during the year due to depressed trading conditions prevailing in those markets. Exports to East European countries on the other hand recorded a substantial rise. Exports to U.S.S.R. also increased. The analysis shows exports to East European countries in 1967 will be better as increased provision for cotton imports has been made in the trade plans finalised so far. Referring to the performance in Asian markets, the analysis shows that it has been most distressing.

Persian Gulf ports recorded the steepest fall in off-take of cotton piece-goods from 210.5 lakh square metres in 1965 to 117.9 square metres. Exports to Ceylon declined due to delay in deciding about revaluation of the pending contracts, non-issue of import licences to traders in the second half of 1966 and the limited purchases against the credit extended to her. In Malaysia, abolition of preferential tariffs on Commonwealth goods came in the way of exports. Exports to the U.S. and Canada improved in 1966, but exports to both Australia and New Zealand were lower.

On export performance of mineral-ore, the increase in export of iron-ore and bauxite has been maintained while export of other minerals has shown a downward trend. Export of iron-ore by the Minerals and Metals Corporation increased by 30 per cent from 6.04 million tons to 7.83 million tons while export by private shippers in Goa increased from 5.27 million tons to 5.43 million tons. The overall increase in exports during 1966 was 18 per cent. Export of manganese-ore during 1966 totalled 1.12 million tons only against 1.28 million tons in 1965. However, it is hoped that as a result of the steps already initiated to strengthen the production base by giving reasonable price increases to mine-owners and other incentives, as well as the competitive position of Indian ore after devaluation, exports will increase in the years ahead. Export of ferro-manganese during 1966 totalled only 25,547 tons against 57,552 tons during the preceding year, the decline being mainly due to the completion of shipments against barter with the Commodity Credit Corporation of the U.S. in the middle of 1966. The situation, however, has improved with a new deal with the U.S. early this year for shipping 28,000 to 30,000 tons of ferro-manganese. Export of coal registered sizable decline during 1966 compared to 1965 mainly due to the loss of Pakistan market. However, export prospects in the coming years are expected to improve with the help of long-term contracts concluded with Burma and Ceylon. There was a serious fall not only in the total export earnings but also in the export of traditional commodities like tea, jute and cotton textiles. The fall in exports in 1966-67 is likely

to be of the order of $192 million (about Rs 124.5 crores) according to tentative estimates. In the exports of jute alone, India has lost more than Rs 30 crores in the calendar year 1966. The decline in exports is due to a number of factors such as acute shortage of fibre, Pakistan's competition, increased cost of production and continuance of high export duties. The drought was responsible for the fall in jute production. Since India has no trade relations with Pakistan, she could not import the requisite quantity of jute for her mills. India lost Rs 19.7 crores in the export of tea. Exports of tea during 1966 totalled 169.8 million kg. valued at Rs 95.3 crores against 199.4 million kg. valued at Rs 115 crores in 1965 (pre-devaluation).

ENGINEERING GOODS

THERE IS apprehension in industrial circles that the continuing slow-down in the export trend would become catastrophic unless corrective actions were taken even at this early stage of stagnation or deterioration. The Engineering Export Promotion Council is worried over the trend in post-devaluation exports and apprehends that unless the problems facing the industry are sympathetically considered, exports will fall further. The figures, as given in Table 2 below, tell their own story:

TABLE 2

EXPORT OF ENGINEERING GOODS

(*Rs in lakhs*)

Month	*Total (excluding steel)*			*Steel semis*			*Total including steel*		
	1965	1966		1965	1966		1965	1966	
	Post-dev.	*Converted at pre-dev. rate*		*Post-dev.*	*Converted at pre-dev. rate*		*Post-dev.*	*Converted at pre-dev. rate*	
April	121.22	185.16	185.16	67.54	68.21	68.21	181.76	—	253.37
May	131.55	142.86	142.86	44.87	105.75	105.75	176.42	—	248 61
June	156.22	242.57	159.49	32.76	47.05	29.15	188.98	60	182.61
July	178.47	225.07	139.54	54.85	63.57	39.41	233.32	288.64	178.95
August	144.08	245.00	151.90	50.43	48.00	29.76	193.51	293.00 (Estimated)	181.66
September	166.27	150.00	93.00	33.07	40.00	24.80	199.34	190.00 (Estimated)	177.80
Total	897.81	1,195.66	871.95	283.52	372.58	297.08	1,173.33		1,223.00

It will be noted that if post-devaluation figures are converted to pre-devaluation figures, there is a fall in export. In the normal course, the exports during the first six months should have been at the rate of Rs 2.75 to 3 crores per month,

and in the second half, these figures should have been on an average, Rs 4 crores. It is a matter of deep concern that it took more than three months to announce the alternative schemes and procedure for claiming licences and cash assistance. On account of withdrawal of concessional steel prices which ranged from Rs 150 to Rs 630 per ton, the cost has considerably increased by way of additional investment resulting in substantial expenditure by way of interest, additional sales tax and additional wastages. Nearly Rs 80 lakhs representing an average 15 per cent of the *f.o.b.* value by way of cash assistance since devaluation till September 30 are tied up. The refusal on the part of the Government to stand by the exporters in respect of commitments which they entered into prior to devaluation and an uncertainty about future steel prices have discouraged them from entering into firm commitments in future. The policy in respect of some of the important items like wires and cables (aluminium based) has not yet been announced. Enquiries for more than nearly Rs 3 crores for wires and cables are going to lapse for want of firm quotations by Indian exporters. The scale of cash assistance in respect of some of the items like pipes and tubes having vast potential, being lower than even the bare cost of production is further discouraging exporters to think of any business on a long-term basis. Whatever exports have so far taken place, are against the commitments entered into prior to devaluation. There is, therefore, an atmosphere of despondency, and unless the Government is prepared to solve the basic problems regarding:

(*a*) supply of steel at world prices,
(*b*) fixation of extras at world level,
(*c*) provision of rupee finance,
(*d*) grant of credit facilities on terms equivalent to those offered by other exporters,
(*e*) expeditious disposal of claims for cash subsidy; and
(*f*) issuance of licences on an immediate basis to exporters of engineering goods, which offer great promise for future,

the Industry would come to a halt.

UNDER-UTILISATION OF PLANT CAPACITY[1]

THE NATIONAL Council of Applied Economic Research in a study released on 5 November 1966 has stated that the extent of under-utilisation of capacity in major industries is considerable, mainly owing to foreign exchange difficulties or poor quality of indigenous supplies. The study suggested that the Government should appoint a special committee to study the problem in more detail and suggest remedial measures, particularly about the availability of raw materials. The study is based on a comprehensive questionnaire sent to 4,728 manufacturing units in 17 industry groups covering 276 industries. However, the response to

[1] For further information, see p. 748 of Volume 2 of *Fifteen Years of Democratic Planning*, Table 249.

the questionnaire was 'extremely poor': only 129 replies were received. The study relating to the extent of under-utilisation of industrial capacity in 5 major groups of industries estimates that in as many as 25 of the 26 industries in the 'metal products' group, selected for analysis, under-utilisation ranges from a minimum of 30 per cent to a maximum of 90 per cent. In the group 'machinery other than electrical', 12 out of 15 industries covered show under-utilisation of between 20 and 80 per cent. For the 'electrical machinery and appliances' group, there is 30-40 per cent under-utilisation in nine industries, 40-50 per cent in another four and as much as 50-90 per cent in another three. In the transport industry group, the extent of under-utilisation in the automobile industry is just about 50 per cent. For bicycles, it is 53.5 per cent and for trailers as much as 75.2 per cent. Fifteen industries in the chemical and chemical products group have 50-60 per cent. Under-utilisation for all these groups was estimated after analysis in two stages. First, estimates were made of the extent of under-utilisation on the basis of the number of shifts actually worked now. Then a norm was laid down and the number of shifts desirable to be worked in these industries was determined. The under-utilisation percentages are calculated on the basis of these desirable shifts. The study has also sought to construct an average under-utilisation index for industry as a whole covering 140 industry groups. But the gaps in the data make such an index rather unrepresentative. Information regarding capacity is not available for all industries. Data regarding the weights to be assigned to various products are lacking. The causes responsible for under-utilisation in the five industrial groups have been briefly traced. Shortage of foreign exchange and the consequent shortage of raw materials, components and spares are a fairly substantial explanation, but the question cannot be decided until after a closer scrutiny is made of the relevant issues in relation to each individual industry.

COST REDUCTION

In view of the gigantic investments proposed in the Fourth Plan, the need to economise on materials, equipment and inventories can hardly be gainsaid. In most Indian industries, these items account for more than 50 per cent of the cost of production, while in some of them, the proportion is as high as 70 per cent. It is estimated that the outlay of Indian industries on materials and equipment during the last Plan period was Rs 22,000 crores and the corresponding figure for the current quinquennium will not be any less. A 5 per cent reduction in the materials bill will mean a saving of Rs 1,000 crores. On the side of inventories where the general trend is towards excessive accumulations, a 25 per cent cut may not be infeasible, which means there can be a further saving of Rs 500 crores. That such gains could be obtained through scientific management of materials is too attractive to go unnoticed by industry and government alike. Indeed there is a case for pursuing this reform with great vigour.

Actual results will, however, depend largely on how quickly and efficiently a purposive awareness in this regard can be generated. It is some considerable

time since the Indian Engineering Association had made the finding that only 7 out of the 14 structural steel sections now being produced are actually in use. Yet, the output of the other 7 categories has not been curtailed appreciably enough. On the other side of the medal, it is seen that the railway sheds and platforms at Rourkela have still little of the mechanisation needed for handling the large and heavy consignments required by the adjacent steel plant, and this despite the knowledge about the conditions obtaining in similar rail-heads abroad and despite the pressure of the privation engendered by the long dependence on primitive facilities for handling bulk cargo. So long as lethargy of this sort continues, the precepts of efficiency doled out in specialist seminars and business meets will have fallen on deaf ears.

Efficiency in this field is not also a matter of mere arithmetic. If materials are to be economised, the persons procuring them should know the types really needed and the sources that can supply them best. There is no doubt that the country lacks such trained personnel in the numbers it requires, and the tasks of training them are *ipso facto* stupendous. Yet these cannot be avoided any longer. As for inventories, their excessive accumulation is due to the uncertainties in their availability because of diverse causes like import restrictions, uncertain licensing policies and rising prices. Until these are tackled appropriately and the entrepreneurs are assured that the system of controls operating in the economy will not any longer be in a state of flux and continuous experiment, it will be difficult to restrain the locking up of capital needlessly in inventories. It is incumbent on the Government to take the initiative in finding the proper cure for this malady.

THE EXPORT PROBLEM

THE GAP to be covered by (gross) external credit was put at Rs 6,300 crores (in post-devaluation rupees). An important assumption underlying the entire set of estimates was that the exports during the Fourth Plan period would amount to Rs 8,033 crores (this and all the figures mentioned hereafter are at post-devaluation rates). Discussing the annual phasing of exports, the Draft Outline document tentatively assumes that the exports may rise to the level of Rs 1,300 crores in 1966-67 and Rs 1,929 crores by 1970-71. In other words, if our export prices remain unchanged in terms of foreign exchange, it is envisaged that the volume of exports in 1970-71 would be about 50 per cent above the level of 1965-66. The step-up is substantially larger than what was achieved during all the three Plans taken together. Judging from the trend in the exports during the first six months of the Fourth Plan, it appears highly unlikely that the target of Rs 1,300 crores for the current fiscal year would materialise. A careful study of various pronouncements by those connected with our export trade gives the impression that a 50 per cent increase envisaged in our real exports during the five years of the Fourth Plan is unlikely to materialise. If we fail to hit the target for exports, the estimates of external payment and receipts would have to be correspondingly revised and the gap to be covered by (gross) external aid may be much larger

than the estimated figure of Rs 6,300 crores. The following Table contains relevant figures:

TABLE 3

ESTIMATE OF EXTERNAL PAYMENTS AND RECEIPTS: FOURTH PLAN

(*Rs crores*)

Item	*In pre-devaluation rupees*	*In post-devaluation rupees*
I Payments		
1. Imports	7,650	12,049
(*a*) Maintenance imports	5,200	3,190
(*b*) Project imports	2,450	3,859
2. External debt servicing charges	1,450	2,284
Total	9,100	14,333
II Receipts		
1. Exports	5,100	8,033
III Gap to be covered by external credit (I *Minus* II)	4,000	6,300

EXPORT PERFORMANCE

THE LATEST figures available show that exports have taken a disappointing turn and that, instead of promoting exports, devaluation has resulted in a serious slide-back. In the financial year 1966-67, export earnings may not exceed Rs 750 crores (pre-devaluation) against Rs 810 crores for the previous year. The export figure even three years ago was much higher because in 1963-64 exports stood at Rs 794 crores. The fall in exports following devaluation has been in almost every direction, excepting the EEC region. Even exports to the rupee area have fallen, and there has been a fall in exports to the American region and a sharp decline in exports to the U.K., which is causing concern. Devaluation, and the abolition of export incentive schemes that followed it—have hit some of the most important traditional exchange earners like tea, jute goods and cotton textiles. In the case of textiles, against a monthly export average of 45 million metres, the post-devaluation average has been only about 35 million metres. In the case of jute, sackings seem to have suffered the most. Rationalisation of export duty has not helped revive tea exports. Daily reports of the exports fot December show that the exports in December would be in the region of $137 million, against the $153 million figure in December the previous year. This would mean a fall of $16 million in export earnings. Though there has also been a fall in the export of vegetable oils, tobacco and other agricultural items due to the two successive years of drought, the slide-back in

exports this year is mainly due to the inexplicable fall in the export of three items—cotton textiles, tea and jute goods.*

So far as tea is concerned, Ceylon, one of India's main competitors, is also facing a foreign exchange crisis and the crop in Ceylon last year, which is now on sale, has not been very good. Normally, therefore, there should not have been fall in demand or in exports from this country. What then is the reason why tea export has been falling is the question that the Commerce Ministry is trying to answer. There is a section of opinion according to which it could be that the foreign interests deeply entrenched in this country's tea industry are trying to build indirect pressures on the Government to secure a cut in the export duty and thus make easy profits. This, according to these circles, could also apply to jute goods. In the case of jute, the fall is mostly in sackings. With regard to cotton textiles, however, the reason for the fall is generally accepted by informed circles as the abolition of the incentive schemes. The percentage of entitlement in the case of cotton textile exports to Europe has been high, particularly on the finer varieties. It is, therefore, argued that the main stimulant for export increases in textile was the attractive incentive, and once that was withdrawn, the whole structure collapsed. Informed circles wonder whether the incentives would be revived in the case of textiles or whether the Commerce Minister would devise some formula to help the industry either through the Export Promotion Council or through the Indian Cotton Mills Federation. Great significance is attached to the Commerce Minister's talks with the I.C.M.F. leaders recently.

With regard to direction, exports have fallen all round—even the exports to the East European rupee region have fallen. One of the main reasons for the fall in exports to the rupee area is that the backlog of exports which accumulated in the months immediately following devaluation had not been cleared. There has been a very sharp fall in exports to the U.K. which is now estimated at 25 to 30 per cent. Exports to America have not shown any increase in the post-devaluation period. The only exception to the general slide-back in exports, region-wise, is the EEC and there is a reason for that. The increase in exports to the EEC is accounted for by leather, cashew kernels and oilcakes. Leather exports enjoyed a very low incentive earlier: devaluation has, therefore, helped in its export because even the small incentive there was heavily loaded in favour of finished leather. Cashew kernels, as also oilcakes, were enjoying a good world demand even before devaluation which has made their sale further attractive. In the case of engineering goods, the figures indicate that the exports are rising fast. Against a normal export figure of Rs one crore per month, the figure for October was Rs two crores and this may be the figure for the subsequent months if there is no unforeseen upset. Chemicals are also registering an increase. But this is not true of plastics which enjoyed a very attractive entitlement benefit. Thanks to the

* According to the *Financial Times*, Indian exports were down by 11 per cent and imports down by 10 per cent during the year ending June 1967 compared to the corresponding previous period.

shortfalls in industrial production, steel industry in the country has got disposable surpluses which Hindustan Steel Ltd. has lost no time in selling abroad. The efforts of the public sector in this case seem to have borne fruit. An important item which is picking up is fish and fish products. The Government has realised the huge export potential of this item which may figure rather high in all future export lists. Another important item which has shown a rise in exports this year is precious stones. Informed sources attribute the increase to the revival of the incentive scheme in this case.

India lost $206 m. (£ 73 m.) in export earnings in the 12 months since the Rupee was devalued by one-third in June last year. Devaluation has been proved 'a Himalayan blunder'. Exports are estimated at $1,505 m. compared with $1,711 m. in the immediate pre-devaluation year. There is a fall in imports, mainly due to inadequate availability of foreign exchange, totalling $2,597 m. compared with the previous year's bill of $3,004 m. This fall in imports reduced India's foreign trade deficit to $1,092 m. from $1,293 m. After an initial slump following devaluation, exports had begun to show signs of improvement and by the December-February quarter had recovered to be only $8 m. off the previous years level for the same period. But by May, 1967, the gap had widened to $32 m. A World Bank mission that visited India last year suggested devaluation as a necessary aid to the country's sagging economy.

SHOOTING PRICES

The Government has allowed a 14.7 per cent price increase in drugs and medicines since devaluation. The price rises in other commodities are, according to official figures, Sugar 12.4, mill cloth 8.9, bicycles 2.7, kerosene 0.3, petrol 7.6, lubrication oil 13.4 and coal 5.6 per cent. The only commodity where the price has decreased is vanaspati which has declined by 3.6 per cent, the prices of paper, soap, newsprint and bicycle tyres showing no change.

The wholesale price index in May 1964 was 127 and in July 1967, the price index is at 212. This means that there was a rise of 127 points in 14 years with 1950 as base year, and in 3 years it has increased by 85 points which means about 28 points per annum increase in the last 3 years as against 2 points prior to 1964. As a result of this, the real standard of living has fallen year by year, sometimes month by month, in spite of marginal increases in dearness allowances, increases in wages and rises in other allowances. The actual situation is much worse than reflected by such averages in the case of the lowest income and fixed incomes strata because the price indices of food articles and other essential commodities have shot up much higher than others.

Chapter IV

COGNATE PROBLEMS

ADMINISTRATIVE REFORMS

Apart from the Interim Report which is of little significance, the Chairman's recent announcement that the report of the Administrative Reforms Commission will be released only in September 1967 is somewhat disappointing. But the delay will be worthwhile, if the Commission does its job thoroughly and produces a realistic report. The Commission has been entrusted with a heavy task and its success will depend largely on the type of co-operation it receives from the public. Trade and industry, in particular, have a special responsibility to provide the Commission with well-documented memoranda and measures for reform. Surprisingly, however, industrial and trade associations do not seem to have studied this problem in detail so far. The Federation of Indian Chambers of Commerce and Industry and the Associated Chambers of Commerce and Industry, at almost every annual meeting, have deplored the delay and inefficiency in administration and stressed the need for prompt decisions and quick implementation. But their complaints and suggestions have been rather vague. Now the time has come for these bodies to go deep into the matter and suggest specifically how improvement can be brought about. Whether their proposals are accepted or not by the Commission and the Government is another matter.

Broadly, the main defect in administration has been the lack of effective co-ordination. At the Centre, the number of ministries and departments has been constantly increasing. Portfolios are frequently changed and chopped according to the whims of Ministers. But, at the same time, adequate steps are not taken to ensure that the different departments work together in close co-operation. This leads to a lot of delay, causing various complications. Take, for instance, agriculture. This vital subject is handled mainly by the Ministry of Food and Agriculture. But this Ministry by itself cannot achieve much, unless the Ministries dealing with irrigation, power, commerce, finance and railways also extend their full support to its programmes. The Finance Ministry has to allocate adequate foreign exchange for the import of fertilisers. The Railways have to move the foodgrains and other crops promptly. The Commerce Ministry has to see that export and import policies are suitably adjusted. The Ministry of Irrigation and Power has the responsibility to provide irrigation facilities and electricity at cheap rates. Above all, there are the State Governments which have actually to implement the different schemes for agricultural improvement. It is thus easy to see that, unless all these agencies function with a sense of urgency and understanding, it is impossible to implement the development schemes successfully. In fact, it is because of the failure of the administrative machinery that the country has not been able to derive the full benefit from the massive investment in agriculture.

Industrial development, too, has suffered severely for the same reasons. Industry, in general, commerce, iron and steel, petroleum, chemicals and other subjects have been shifted too frequently from one department to another. Besides, the numerous controls on the economy have increased the volume of work to be done by Government officials. But the administration has not been able to cope with it. This has led to corruption on an increasing scale. It is not only the small businessmen who have suffered from administrative inefficiency. Even big business houses have been unable to get things done quickly by Government departments. The State Governments, too, have found it necessary to appoint liaison officers at New Delhi to speed up their work.

India's import and export trade has also been seriously affected by defective administration. The Import-Export Policy Committee has referred to the widespread complaints regarding delays in the disposal of applications. It says:

'Delays in the Import Control Organisation can have far-reaching consequences. Production gets retarded for want of raw materials and equipment sought to be imported, business gets dislocated and prices shoot up. Cases have come to light where the importer has had to pay heavy wharfage and demurrage to the Port Trust authorities, because, some necessary amendment to the import licence, for instance, could not be made by the licensing authority in time. Sometimes, contracts get cancelled or prices are raised substantially by the foreign suppliers, while the officials make up their minds too slowly to issue a licence. In net effect, delays hamper industry and trade and cost the country dearly in foreign exchange. This aspect of the matter should be impressed on all concerned. Delay is generally due either to the complexity of the licensing system or the inability of the staff to cope with the inflow of work.'

Similarly, India's inability to bring about a sustained growth in exports is also largely due to administrative failures. If the various incentive schemes did not work as well as they could have, it was because the departments of Commerce and Finance did not co-operate properly with each other. The Union Ministry of Finance itself candidly admitted, in a Press Note issued in June 1966 justifying devaluation, that the system of export incentives 'is inefficient and demoralises the administration: it results in confusion of principles and inefficiency or worse at lower administrative levels'. Can anything be more self-condemnatory than these remarks?

In short, it is no exaggeration to say that India had to devalue the rupee mainly because the powers-that-be did not take care to ensure a clean and efficient administrative machinery. The expenditure on general administration of the Government of India alone has nearly trebled between 1950-51 and 1966-67. But the country has not benefitted from this large expenditure. The Prime Minister, Mrs Indira Gandhi, herself has often criticised the Government departments for their slovenly work. She has been particularly severe in denouncing the working of the public sector projects. At the Conference in New Delhi on 14 June, 1966, Mrs Gandhi said that defects of the public sector arose from over-capitalisation, over-staffing, inadequate work-study, lack of delegation, lack of a well-thought-out

personnel policy and unsatisfactory labour relations. Trade and industrial associations, therefore, should examine carefully all the relevant issues and urge on the Commission appropriate measures, so that the economy can move forward with speed and vigour.

It is doubtful, however, whether even if the Chairman and his colleagues were to produce a competent and comprehensive report, it would really help the country to get the type of administration it deserves. The doubt arises because in the first place, no firm decision has yet been taken on the question of the language of administration. This is an explosive issue beyond the scope of the Commission. But, unless it is satisfactorily settled, the administration cannot work efficiently. Secondly, what is the attitude of the Government towards the private sector? We are constantly told that the private sector will have vast scope in a developing economy. This statement, however, is not fully reflected in the Government's actions and policies and the private sector continues to be crippled in various ways. Some controls have no doubt been liberalised, but many unnecessary ones still remain and there is no indication yet of their withdrawal. What is really wanted is not merely the removal of certain controls, but a policy of actively encouraging the private sector to play its part freely and fully. The Government should refrain from encroaching on the sphere of the private sector, except where it is necessary for strategic reasons.

Thirdly, administrative efficiency will depend on the future of the country's political set-up. If some States pass over to the Opposition, will the Centre be able to exercise effective control over them? It is not possible to answer such questions in the affirmative with any degree of confidence. For the fact remains that even when the Congress has been able to command absolute power both in the Centre and the States for nearly two decades, it has not been successful in providing the country with the type of administration required for a Welfare State. It is common knowledge that the Centre's influence over the States today is not as effective as it ought to be. Sir Norman Kipping, by no means unfriendly to India, says in his report issued in February 1966, that the World Bank and other aid-giving countries have been deeply concerned by the 'slow and irritatingly ponderous administrative machine' that has grown up in India, an opinion with which many a businessman, who has been in the forefront in India's fight for Independence, agrees. This surely is no compliment to the Congress or the country. One need not, however, despair of the future provided the public and the leaders maintain eternal and enlightened vigilance, the Press remains free and fearless, and trade and industry organise themselves effectively on sound lines.

THE FOURTH FIVE YEAR PLAN

THE MOMENT of realism seems to have arrived, if one is not mistaken, in Yojana Bhavan in the wake of devaluation. It is a happy augury that the post-devaluation realities relating to rupee resources are being recognised, albeit rather reluctantly, by the planners whose pre-devaluation discussions on the Fourth Plan had an air of

unreality and excessive zeal for gigantism. The Minister for Planning confirmed that the rupee content of current plan programmes would go up not only as a consequence of devaluation but also because of the price increase of more than 25 per cent over the last 2 years. He rightly added that, in case the requisite additional rupee resources could not be found in full, the projects and programmes of both the private and public sectors might have to be pruned. In his view, some priorities, too, might have to be changed without prejudice to the planned development of agriculture. There is also a clear recognition (in Mr Mehta's statement on the eve of his visit to Moscow for aid talks) that any programme that might lead to further inflationary pressure would be meaningless. What is more, there is nothing to cavil at in his present balanced stand on problems of planning quoted below:

'If we take a little more time, it (planning) is worth it, because we must safeguard both the immediate future and the long-term future. If we become too cautious and take into account immediate difficulties and ignore the future, it will not be proper. Thus, the balancing and phasing have to be considered as carefully as possible. The final judgment should be one tested as much as possible by various experts'.

But the judgment of experts may go awry, as it has done so often in the past. for even experts are not infallible. If Mr Mehta's general prescriptions are to be reflected in a much smaller, manageable Fourth Plan, the axe must fall heavily on the public sector investment of around Rs 16,000 crores envisaged in the revised (but yet tentative) Fourth Plan memorandum of September 1965. The rise in prices since that date—a rise that is continuing—and the impact of devaluation would seem to suggest that the actual cost of the physical programmes covered by the then proposed public sector outlay of about Rs 16,000 crores would be substantially more than the figure of Rs 17,500 crores now deemed equivalent to the former figure. If even at the originally estimated level of Rs 16,000 crores, the likely resources were expected to fall short by more than Rs 2,000 crores, one wonders if the gap would not be much wider at current prices and in the wake of devaluation. Any attempt to narrow this gap by inflationary sources of financing would be disastrous. Likewise, any excessive resort to the so-called 'non-inflationary source' —a euphemism for taxation—would be no less so in a situation of rising prices and already-heavy burden of taxation. Surely, the authorities, especially the ruling Congress Party, could ill-afford to ignore, ostrich-like, the fact that the purchasing power (and, consequently, the standard of living) of every income group, caught as it is between two pincers—one of rising prices and the other of increased taxation— has eroded to the point of making everbody sullen. It would be folly to think that, besides devaluation, yet another bundle of straw can be added to the camel's back.

It would thus appear that any cut in Fourth Plan size, if it is to be meaningful, would have to be drastic. Now that the planners have recognised the acute problem of rupee resources, they should have the courage to prune the Plan to a manageable size, thereby giving the lie to (*i*) the latest report from Delhi that the cut likely to be proposed may be comparatively modest; and (*ii*) the statement by the Indian

Finançe Minister at London recently that he 'can foresee no drastic reduction in the Fourth Plan size'. Incidentally, at the risk of boresome reiteration, we would like to plead for (*i*) a higher priority to consolidation of the economy than to its expansion, (*ii*) the selection of new projects, if any, in the light of their capacity for yielding quick results and for augmenting the country's export potential, (*iii*) a strong discipline over all unproductive expenditure in both the public and private sectors, and (*iv*) hard work by everyone to bring about a substantial rise in the productivity of land, labour and machines. The Annual Plan 1966-67, which has been welcomed as a realistic one on several grounds, could well serve as a model for the Fourth Plan as a whole.

There is a growing volume of opinion that favours the adoption of appropriate policies calculated to ensure that Fourth Plan programmes would be well within the internal and external resources available. This opinion is not confined to the Swatantra Party or to some sections of the business community. It is, on the other hand, spreading to the ranks of the ruling Congress Party itself. This is what a leading Congressman Mr Venkataraman had to say in his speech at the annual meeting of the Hindustan Chamber of Commerce held at Madras the other day:

> 'In the first place, the country must decide very firmly that it will reduce its imports, even if it involves cutting down the industrial expansion to which we have committed ourselves. . . . Until you know the consequences of devaluation on the internal cost of the industries that you propose to establish, it would be stupid to think of any industrial projects or any industrial expansion. The Madras Industrial Development Corporation has decided to go slow on all new ventures in the State. . . . It was stated that, as a result of devaluation, industrial development would be accelerated. On the contrary, I think, and I do find now, that industrial development will be slowed down to a great extent. . . . I do hope that, as practical men, we will take note of the serious difficulties that confront us and we will go slow in the matter of industrial development until we are able to gather sufficient strength internally to finance our increased expenditure on these units. It is imperative that the Fourth Plan should be cut to size and based on a realistic assessment. . . . A year or so before the conclusion of the Third Plan, I enunciated the proposition that the Fourth Plan should involve only five times the expenditure of the last year of the Third Plan. In spite of devaluation I still stick to that view and I am afraid that, if anything more is attempted, it will land the country in further difficulties'.

As one who has been in charge of the industries portfolio in Madras State for the last ten years, Mr Venkataraman has spoken with some insight and authority on current industrial problems. The words of caution he uttered deserve to be heard with respect not only in the private sector but also in the public sector which has far too many industrial projects on hand or under contemplation. His views on the size of the Fourth Plan are even more compelling in their logic, when set against the background of his detailed proposals and related opinions. There is,

to begin with, his forthright stand that, merely because foreign aid is offered to us, it would be wrong to go about receiving all that and spending it lavishly on schemes which are not likely to yield a return within a short time. Secondly, according to him, every one of the schemes under the Fourth Plan should yield a return between the third and the fourth year of the Plan: if any scheme is going to yield a return after five years, it should be ruthlessly eliminated, so that the investment thereon may not add to the inflationary pressure.

The third proposal made by Mr Venkataraman is that consumption in every field should be reduced in national interest and the surplus diverted to savings. No amount of regulatory laws or ordinances controlling prices, or establishment of super markets, in his view, can combat the effects of inflation. Mr Venkataraman is, of course, aware that the call for reduction in consumption is a pious hope and that unless the people themselves respond, there is no way of enforcing it. The most that can be said for it is that it is a theoretically sound approach to suggest that, in an inflationary situation, it would be prudent to curtail consumption as much to restrain the upward pressure of excessive demand on prices as to enable the saver to have a store of value that would be worth more in real terms at a time of possible slower or stable prices later on. One, however, may wonder whether high prices themselves have not the effect of partially restricting consumption. If anything, there may be a case for enabling low-income and middle income groups to maintain their minimum essential consumption without appealing to them to tighten their belts further.

It is, in this context, that there is particular merit in Mr Venkataraman's candid remark that, if the confidence of the people is to be restored, we must come out with a categorical statement that the Fourth Plan will be a tax-free Plan. What he means by this statement is that unless an assurance is given that no additional imposts will be made to finance the Fourth Plan, there will be absolutely no popular enthusiasm for the Plan at all.

R.B.I. GOVERNOR'S OBSERVATIONS

Mr P. C. Bhattacharya, former Governor of the Reserve Bank, has called for a proper incomes policy for the country to curb inflationary pressures and stabilise prices. 'The one thing which has led to our difficulties is that wages and incomes are not related to production. They are determined by pressures that can be exerted by particular groups'. The former Governor said: 'if this is continued, obviously we will be again priced out and we will face a difficult situation. These are areas where firm decisions and firm actions are needed in order to have more production'. While he did not suggest a wage freeze, Mr Bhattacharya said, it should be regulated in accordance with a policy that as and when a pay rise was given, it should be seen that a little more production was obtained for that. Unless that was done for a period, it would not be possible to get out of the vicious price spiral.

On overdrafts by State Governments, the former Governor said the Reserve Bank was prepared to revise the normal limit on the basis of the present operations of the State Governments. 'We have intimated to the State Governments the revised figures which are more than double the original limit. If they agree,

agreements with the State Governments, under which the Reserve Bank is their banker, will be modified to fix the higher limits'. The overdraft limits for State Governments were fixed in 1937 and not revised since then. The matter will be finalised by early March and the new limits will start operating from the new financial year, in April 1968. Reviewing the state of the economy Mr Bhattacharya said, internally the economic situation was difficult. Prices were still rising. So far as the external position is concerned, the balance of payments position continues to be difficult.

We have not yet had much success with our request for debt re-scheduling and, therefore, the pressure on our free exchange is mounting up, specially because more foodgrains and fertilisers are being imported. Asked whether the expectations which the authorities had in mind while devaluing the rupee, had been fulfilled, Mr Bhattacharya said the experience since devaluation had certainly not been according to expectations. One of the hopes at the time of devaluation was that the Government, with stable agriculture, would be in a position to reduce deficit financing which from the demand side was a cause for the price situation. On the contrary, there have been droughts and famines and relief expenditure is being multiplied so that even the expectation of the Government of being able to balance their budget after devaluation, has not come true. Asked about the reasons for the decline in exports since devaluation, Mr Bhattacharya said it was partly due to the difficulty about trade arrangements with the East European countries that slowed down exports. Another reason was too much talk about the introduction of incentive schemes resulting in the foreign buyer offering lower prices and the Indian exporter waiting to see if something better would come up. The Governor agreed that some incentive for exports was required on a selective basis, and not as in the past. Devaluation had, however, helped in selective fields, for instance, it had helped marine products, the exports of prawns had gone up. But a real breakthrough was possible only if a real surplus of exports was produced. Mr Bhattacharya said that foreign private investment had slowed down long before devaluation because in an inflationary situation, private investors always become more cautious. On agriculture the quantum of credit had increased to meet requirements of agricultural activities, 'but we are not very much satisfied with arrangements for utilisation of credit in many cases. In our view, there is too much of laxity. The whole idea of the Reserve Bank credit for agricultural production was short-term credit to be repaid out of production, so that it would not have any effect on the monetary situation. If the money did not come back, it would add to inflation'. On prices, the former Governor said, if the Bank had not taken adequate measures, the inflation would have been much more. The fact was most of the increase in monetary supply had originated out of the Government's budget. Therefore, whatever the Bank had done to contain the pressures must be looked at against that background. Asked whether the Reserve Bank had adequate control over banks in the context of the demand for social control of banks, the Governor said the Reserve Bank had enough powers to influence operations of banks. It all depended on what one wanted to do with the Banking system.

COMMERCE MINISTER'S VIEWS

The current financial year is likely to close with a sizable fall in export earnings. All hopes of recovering fully the ground lost immediately after devaluation have been given up, and the Government is resigned to a poorer export performance this year. The Government had not expected any spectacular breakthrough in exports in the short run in the wake of devaluation and it had warned that substantial results could be produced only as a result of vigorous and sustained efforts. But the agony of disruption to trade caused by devaluation has been much more prolonged than the Government's expectation. The set-back of nearly Rs 70 crores to exports in the first three months following devaluation cannot be made good fully. The gap will, no doubt, be bridged to some extent, but there are no illusions in official circles about the country's ability to make up the loss by the end of March. It has taken nearly five months for the normal trading pattern to be restored after devaluation. The trade with East European countries was disrupted because of the delay in making adjustments in contracts. Importers in other countries, in many cases, preferred to wait and watch and let things settle down. They had obviously been expecting that by keeping on the fence and creating an impression of slackness in demand, they would be able to exercise pressure on the Indian Government to stimulate exports. The export figures for November were expected to reflect the normal flow of trade, but it is recognised that exports cannot pick up sufficiently in the next two or three months to match last year's performance, let alone any improvement. Policy-makers in the Commerce Ministry are not thinking in terms of any major policy changes to push up exports. They would rather wait for the various measures already taken to produce results, and it is emphasised that there is no 'open sesame' so far as exports are concerned. There is no intention to reduce export duties. The uncertainty inherent in the pre-devaluation export promotion schemes has been replaced by a measure of certainty. This has had beneficial effect on investments in industries oriented towards export. There are definite indications that investments have increased in some fields, such as machine tools, transmission powers and many other items of engineering goods. These investments will, of course, take time to produce goods, but it is felt that their impact should be evident in due course. There is of course the stipulation that prices should be kept under control. The trends are not encouraging, and there is concern that the present calculations can be upset by prices getting out of hand. A weakness of the export drive that has been underlined is that the country has not been able to cash in on the greater availability of goods this year, for instance, of steel.

HOW THE CONSUMER IS HIT

Devaluation of currency, be it in a developed or developing economy, is not an unmixed blessing. It brings in its wake many problems of varying magnitude and seriousness, depending upon the capacity of the economy to assimilate and absorb its effects, bad as well as good. Its effects on different sections of people also varies,

being dictated by a multitude of factors obtaining in an economy at a particular point of time. These issues assume an added significance in a country like India where the inflationary pressure already operates in full vigour, subjecting the people, in general, to much hardship and suffering. It is this implication of devaluation, particularly to the mass of consumers, that has caused widespread concern in the country, a concern which the Government itself fully shares, as witness the series of steps it has been taking to hold the price line.

Although the Finance Minister ruled out the possibility of any sharp rise in prices following the drastic measure taken by him on 5-6 of June, his subsequent pronouncements and the actual behaviour of commodity prices in the next five-six months clearly indicate that his earlier confidence was rather misplaced. The Prime Minister herself seems to have understood the gravity of the situation. She deputed some of her Cabinet colleagues to various parts of the country with a view to urging the trade and industry to hold the price line. She herself made a broadcast to the Nation on 12 June 1966 expressing the Government's anxiety to have some sort of control over prices. She said that a series of steps were being taken by the Government to protect the consumer from the erosion of his purchasing power. Now the Finance Minister has come forward with certain proposals to counteract the rise in prices.

1. 'Big department stores' will be set up in 50 towns with a population of over 2,00,000 each. Cities with a population of over two million will have two such stores. The first of these, started in Delhi a few months ago has a capital outlay of Rs 5 crores, of which Rs 4 crores have been provided by the Government of India and Rs one crore by the State Bank of India by way of a loan. Stores in other centres will be started and smaller towns and villages will have consumer stores of their own. If necessary, departmentally-run consumer stores, will be started in areas where the co-operative movement is weak or defective. Later, these will be converted into co-operatives. Controlled commodities will be supplied to all these stores at fixed rates on a priority basis. It has been arranged to secure such consumer goods such as soap and toilet articles at production sources through a system of levy and supply the same to the people at controlled prices through consumer co-operative stores.

2. A Civil Supplies Commissioner has been appointed at the centre who has been charged with the task of implementing the aforesaid programme in the States. With a view to collecting daily data on the ruling price and supply position, a 'control room' has been set up. A list of indigenously manufactured articles and their fair prices has been prepared and given wide publicity. The Government is of the view that there is no reason for the prices of these goods to go up. All this has proved wishful thinking.

One can well understand and appreciate the anxiety of the Government to protect the consumer from the sort of galloping rise in the prices of necessities that has been going on without a break in the past two or three years. One may also concede the contention that policy-makers should have correct and up-to-date data on supply, demand, prices, etc. of almost all commodities

so that remedial action can be taken before the situation gets out of control. But one has to go deeper into the problem to understand the intricacies and wider implications of the Government's proposed move to start a network of Co-operative stores mainly in big cities and towns. First of all, the basic assumption underlying the idea is that the supply of goods to these stores will be ensured at special prices and that without any kind of interruption whatever. If the past experience of fair-price shops and other consumer co-operative stores is any guide, this assumption is, to say the least, a dubious one. Secondly, granting that timely supplies are made available to them and that the stores are permitted to sell the goods at fixed rates, who is going to bear the huge administrative cost of running the system? Either it will have to be met in the form of subsidy from the State Exchequer or in the form of adequate profits earned by the Stores by selling the goods at economic rates that will provide them with a sufficient profit-margin. Or, alternatively, the Government may force the manufacturers to sell to it requirements of consumer goods in bulk at sacrificial prices.

If the first course were taken, namely, State subsidy, it would amount to nothing but taxing the entire populace, in order to protect a small but highly urban section from the upward trend in price levels. It is this vicious circle of more and more taxation, direct and indirect, deficit financing and unproductive and extravagant expenses of the Government that has brought the country to the present predicament. Must it be perpetuated again? The result would not be materially different even if the other courses were taken, either singly or collectively, for they are all aimed at preventing the law of supply and demand from operating in the normal way. The Government's failure in such experiments is writ large in its decision to devalue the rupee. The purchases of goods at fixed prices from the producers for sale through fair price stores amounts to some sort of direct price control on that commodity which in turn will distort the free market mechanism. The experiment will also breed a new type of black market at the consumer level. That apart, there will be formidable administrative difficulties. It is too much to expect that within a few months, the Government can get sufficient number of people of integrity and intelligence to run these stores honestly and efficiently, the two qualities required to achieve the objective in view.

THE PRICE LINE

One is reminded of 'talks about talks' with regard to the future of Rhodesia. Here in India, Government benches in New Delhi have been, during the last 3-4 years, holding out promises about 'holding the price line'. Actually, wholesale prices and working class cost of living have been shooting up for several years past. On top of this, devaluation came in and inflationary pressures in the country began to intensify fast. But, Central Ministers gave vent to a good deal of elementary economics by declaring again and again that while imports should cost more on account of devaluation, commodities produced and consumed at home could not and should not rise in prices. Some figures were suitably selected with a view to

prove that devaluation as such did not result in any special rise in prices; figures were given with regard to a month or two after devaluation, and figures were also given for the corresponding period in 1965. More than 6 months have elapsed after devaluation, and we have official statistics up to the end of November with regard to wholesale prices, and up to the end of October about working class cost of living. These figures reveal just the opposite story. In fact, it is hard to put a finger on even one important commodity, the price of which has not moved up substantially during the post-devaluation months. The authorities argued that costs should not increase in indigenous production and therefore internal prices of home-made goods should not increase. Tables 4 and 5 given below mirror the behaviour of wholesale prices (all commodities and food articles separately) and working class cost of living (all-India) during:

(*i*) the period ending with the Second Five Year Plan,
(*ii*) the period ending with the Third Five Year Plan,
(*iii*) the period following devaluation.

The Data are crystal clear: we definitely and uniformly degenerated from a saunter to a trot, and from a trot to a gallop. The gallop shows a steep worsening during the post-devaluation months. The Planning Commission has been harping on the unavoidability of some price rise accompanying growth, but in fact, growth has tended to decline and prices have got out of hand.

TABLE 4

WORKING CLASS COST OF LIVING

Item	*Increase in points—annual rate*		
	1949 to 1960-61	*1960-61 to April 1966*	*May 1966 to October 1966*
All India	2.2	10.0	36.4

TABLE 5

INDEX OF WHOLESALE PRICES

Item	*Increase in points—annual rate*		
	1952-53 to 1960-61	*1960-61 to April 1966*	*May 1966 to November 1966*
All commodities	3.1	10.3	17.6
Food articles	2.5	11.7	29.8

(The figures are derived from data published in R.B.I. Bulletins of Statistics, October-November, 1966)

In spite of the highly unrepresentative character of the wholesale price index and the working class cost of living index, the spiralling trend pierces one's eyes. The wholesale price index, all commodities, rose between May and November, 1966 by 8.8 points, yielding an annual rate of 17.6 points. Food items rose by 14.9 points, the annual rate working out at 29.8 points. The working class cost of living index rose between May and October (five months) by 11 points, the annual rate working out at 26.4 points. The range of variation in working class cost of living is very wide as among different parts of India. Bangalore shows only four points rise (annual rate 9.6 points) while Calcutta revealed an upward rise by 21 points in five months, the annual rate working at 50.4 points! And yet, the Finance and Food Ministers have been repeating the swan song of 'holding the price line' during the last few years! Such a complacent and culpable attitude can be conceived of only in a bankrupt psychology. It is necessary to add that the actual rise in foodgrain prices and working class cost of living has been much more than according to official statistics given above, on account of free market and black market prices excluded from the picture and controlled prices (not operative even to the extent of 5 per cent) adopted as average prices the items themselves being incomplete (transport, housing, etc. not included).

Again these figures exhibit a blurred reflection. The base year for the index of wholesale prices is 1952-53 while the same for the working class cost of living index is 1949 in the case of six centres and 1960 with regard to eleven centres, the all India base being 1949! Further, the Central Ministers do not seem to take such indices seriously because they very often count points at different levels as integers. This is not correct. It is not at all difficult to understand that one point at a higher level exerts heavier incidence than one point at a lower level on the marginal consumer (hundreds of millions of consumers in India are marginal), and therefore mere subtraction or percentage does not reflect the actual social misery involved. It is indeed extraordinary that the Planning Commission is quite oblivious to the actual dimensions of the spiralling of food prices and cost of living! One cannot but wonder if there is any Planning Commission in any other part of the world which is capable of closing its eyes against such galloping price inflation.

The 'ifs' and 'buts' contained in the Draft Fourth Plan do not leave even 10 per cent of *terra firma*, the three hypotheses taken for granted by the Draft being accompanied by a very high degree of improbability namely:

1. That foreign aid of the order of Rs 6,300 crores will be forthcoming including Rs 2,284 crores needed for debt servicing charges.
2. That commodity production and national income will rise during the Fourth Plan period to the extent indicated by the targets.
3. That the price level will be held during the Fourth Plan period and that economies of the order envisaged will be effected in the non-Plan expenditure.

THE EXPORT CURVE

According to figures published by the Commerce Ministry itself, the value of exports in the post-devaluation months has not only not shown any steady improvement, but there is a clear sagging tendency. Compared to the corresponding months during the previous year, exports fell by about Rs 75 crores. The theory is that devaluation should immediately boost exports (on account of higher rupee prices) while local costs of production (excluding imported items) should take some time to adjust themselves to the higher pitch on account of the 'time lag' which is usual in such adjustments. But we have a sorry tale here—exports are lingering and the internal price line is shooting up. No doubt, the Commerce Ministry has given the following three reasons for the inertia in exports, but these reflect in turn on inadequacy of follow-up measures, and mismanagement of new situations and new problems which cropped up immediately after the wrong step of devaluation. The hope of the Commerce Ministry that exports might improve in the long run, is nothing better than pious hoping if anything, the balance of payments inclines to adjust itself in the long run at a surplus or a deficit disequilibrium according as export items out race imports or *vice versa*. The three explanations given are.

1. Dislocation in the existing export contracts entered into before devaluation.
2. Time required for stabilisation in prices of various export commodities consequent on devaluation and imposition of export duties on traditional items.
3. Dislocation of exports of assisted items as a result of withdrawal of tax credit schemes and firmer export promotion schemes for manufactured products.

Too much hope was being built on the Rs 360 crores worth of import licences granted after devaluation, but whether even 50 per cent of this actually materialised in the shape of components raw materials and spares from abroad in the course of the next few months, should be anybody's guess—thanks to vexatious, time-consuming and redundant formalities indulged in by concerned Central Ministries. Further, the assumption that even a good part of such maintenance imports would automatically enhance the quantum of a relevant exports, is hard to swallow. Domestic demand for consumer goods has been rising phenomenally due to the tempo of planning and speedily rising incomes, and costs of production soaring high should make all the difference between warm and cold reception in foreign markets for Indian goods: several other developing countries have managed to capture foreign markets on account of quality and competitive prices; here in India, it is an open secret that we have degenerated in both respects. Export promotion is going on at a poor rate because the entreprenures enjoy a stoutly protected and fast expanding home market for their products in general.

THE LATEST OFFICIAL APPRAISAL

India's exports during April-December 1966 declined by nine per cent in value compared with the corresponding period in 1965. This was stated by the Deputy Prime Minister Morarji Desai while presenting an interim budget to Parliament for

1967-68. Apart from the domestic shortages during April-December 1966, a dislocation in trade had followed devaluation in June 1966. The demands for some of India's major export items in overseas markets were slack. 'These and other developments in world markets have tended to depress the value of our traditional exports such as tea, jute manufactures and cotton fabrics'. 'On the other hand, these losses were offset to some extent by gains secured by such items as leather goods, footwear, iron ore, steel products and cashew kernels'.

Deterioration in exports combined with rising debt service payments caused a depletion in the foreign exchange resources. Between April and December 1966, the exchange reserves fell by the equivalent of $18 million despite a net drawing of $137.5 million from the International Monetary Fund. Food imports had risen substantially during 1966 because of the drought situation.

Liberalisation of the licensing policy had not yet had an impact on the actual flow of imports. Since December 1966, there has been some improvement in the foreign exchange reserves, accounted for by temporary factors such as the inflow of banking funds.

Chapter V

REVALUATION BY STAGES CAN AND MUST END DEVALUATION DAMAGES

THE SALT SELLER AND THE COCOANUT SELLER

Devaluation has come, but not gone. It has not come to stay. Public opinion is so engrossed with fears of further devaluation that the idea of revaluation to the point 'as you were' has originated in the Budget discussions by the new Finance Minister. Several factors synchronised in bringing about the calamity, and temporary tiresomeness was mistaken for cumulative anaemia, due to repeated hypnotisation by well-meaning but easy-going foreign advisers. With the death of Jawaharlal Nehru, quite a few stalwarts with requisite imagination and courage disappeared from the helm of affairs, and inexperienced opportunists, comparatively pigmies, hastened the fateful decision, much more for earning cheap, short-cut personal fame than in the interests of the national economy. Modestly speaking, in spite of scientific research and planning for 20 years and more, even 10 per cent of India's available and potential resources have not been properly assessed: there are the Himalayas and off-shoots, the Vindhyas, the Western Ghats and the off-shores in which our mineral, agricultural and industrial wealth lies unknown and unhonoured. There has been a serious shoot-up of inflation side by side with rather slow growth, but there is little wrong with the stamina of the country and the people. The unhealthy development of inflation could and should have been nipped in the bud, but the party in power has been intoxicated into a psychology of complacency, if not of vain self-glorification. 'Sow the wind and reap the whirlwind' was what followed, but there was little justification for the extreme humiliating step of devaluation. To cite a homely analogy, it was something like the salt seller in a weekly fair weeping because it rained and his commodity began to melt and flow away, but the adjacent cocoanut seller began weeping hysterically in sympathy, although his cocoanuts were quite intact, with a promise of less cracks of the shells on account of moisture!

REVALUATION NOT UNKNOWN

Countries like U.S.S.R., Yugoslavia, France, Indonesia, Brazil, Argentina, even the U.S.A. and U.K., resorted to devaluation according to exigencies during the last 30 years and more, but in West Germany and Netherlands, due to burdensome surplus balances of payments, there was revaluation. In the case of the West German mark, there was revaluation on 6 March 1961 and the exchange rate for Rs 100 went down from D.M. 87.35 to 82.66. As a result of the recent devaluation of the Rupee, Rs 100 can now fetch only D.M. 58.48. Similarly in the Netherlands, revaluation was resorted to on 7 March 1961, and the corresponding guilder equivalent for Rs 100 was respectively 79.01, 74.92 and 47.60. As detailed earlier,

Revaluation is no longer called for. This Chapter was written in 1967 on the basis of current trends, and therefore presents contemporary thought. By now, internal and international adjustments have taken place more or less after considerable time lag, and the present problem is the revaluation, not of the currency, but of standards and time schedules of social welfare. 15–9–1969.

France recently went back to a Gold Exchange standard. But nowadays, U.K. and U.S.A. are adamant about sustaining the pound sterling and the dollar in spite of proportionately heavy deficit balances of payments.

DEMOCRACY AND SOCIALIST PLANNING

THE TEMPORARY set-back in India was due to numerous pressures. For the first time in history, democracy and long-term planning have been tried in India, but the two have not pulled together amicably. Democracy entails a series of guarantees, checks and balances while socialist planning implies totalitarian exercise of power. The result has been a variety of tug-of-war. Planning in India began and continued with targets based on needs: the coat was cut, not according to the cloth available, but according to the size, assuming that the cloth could be had for the asking, mostly in the shape of external aid. Imitating the Russian model, emphasis was laid on heavy industries at the start, ignoring the urgent consumer requirements of the hungry and toiling millions, whose standards of expectations were prematurely roused by sweet slogans aired by politicians with no serious thought of timely and satisfactory implementation.

AGRICULTURE—THE CINDERELLA

AGRICULTURE WAS assumed to function as an obedient camp-follower, forgetting that cultivation was an extensive industry, and there was all the difference between resolutions and schemes approved by experts, and the degree of implementation by the actual cultivator, with little understanding and less capital. Often-times, sanctioned outlays materialised into much smaller inputs on account of untimely supplies, unwillingness of cultivators and corruption at different levels, leave alone the influence of negative inputs like insufficient or excessive rains, floods, earthquakes, fires, droughts, locusts, price fluctuations—national and international. As a matter of fact, frequent declarations made of late by official quarters that so many lakh acres had been sown with Taichung paddy and so many million acres served by light irrigation, etc., must amuse every one who knows about Indian agriculture; the authorities indulge in such wild announcements mostly because nobody can verify them! The sum total of all this is that Indian agriculture continues to be distress cultivation, not commercialised. Agriculture provides about 50 per cent of the national income, but slow progress has meant less of food and raw materials. This has been the root cause for the contemporary spiral of inflation.

FOREIGN AID—A GOOD SERVANT, BUT A BAD MASTER

FOREIGN AID has proved a white elephant—very costly to maintain. In the majority of cases, the gestation period is long, for example, Bhakra-Nangal and Bokaro. Many such grants and loans are tied, accompanied by monopolistic prices and technical faults. Particularly during the Third Plan period, priorities fixed in the Plan were thrown to the winds, and borrowing abroad went on merrily without any thought as to where it came from, how much was forthcoming, for

what purpose, and terms of repayment, apparently without a bottom or a ceiling. The Planners still believe that they have in external assistance 'Alladin's Wonderful Lamp or Fortunatus' Purse'. It is no surprise that the Indonesian Foreign Minister recently struck a note of warning against grasping at any and every kind of external assistance. The Government of India slavishly obeyed the commands of lending countries by devaluing the rupee, but with no improvement in the national economy; the economy has worsened substantially during the post-devaluation period of one year. Long-term planning cannot but be central planning, but here in India, there is a veritable squabble among the Planning Commission, the Central Ministries and the State Governments with regard to the sanction and implementation of particular projects not even mentioned in the Plan frame. For instance, Mysore wants an automobile industry, Visakhapatnam, Hospet and Salem want steel plants, and the new Education Minister in Mysore has made up his mind on starting the Mandya University!

STABILITY *VS.* GROWTH

UNBRIDLED INFLATION is incompatible with stable growth, but the Indian planners have been imagining that they are capable of ensuring fabulous growth side by side with galloping inflation! Figures have been given elsewhere showing that due to poor production and the tempo of planning, consumer prices have shot up, and all that the authorities have done is to console the starving millions; this is the reason for the electorate voting out the Central Ministers of Food, Finance and Commerce, and the establishment of non-Congress Governments in a majority of States. In spite of mentionable family planning schemes, the population is exploding at a net rate of 2.5 per cent per annum, adding more than 10 million mouths to feed, every year.

CONTROLS AND CORRUPTION

IN THE NAME of socialist planning, a hierarchy was built up with wide powers of control, and such powers were exercised mostly by non-technical men. The consequence was the 'Permit Raj' or the 'Licence Raj'. The black market developed not only in essential commodities, but also in permits and licenses. Public morality degenerated and in spite of small attempts at sampling, grading and quality control, adulteration spread wild. With theoretical administration at village level, and a batallion of Directors General and Commissioners handling the destinies of important industries like jute manufactures, cotton fabrics, tea, iron and steel, etc., the wonder is that mismanagement has not been much worse than actual.

DEFENCE *VS.* DEVELOPMENT

ASYLUM WAS given to Dalai Lama and a compromise formula was rejected about Kashmir, and we had the Chinese and the Pakistan battle fronts. Defence expenditure doubled and trebled, and investment on development had to dwindle

down. The paucity of internal saving is being tried to be covered up by frantic efforts to borrow abroad: 'Wheat Rupees' came in handy over and above deficit spending. Export trade is sagging because the cost structure is high in India, and the industrialists prefer catering to the domestic market at prices sheltered by high import duties and even prohibitions in some cases.

THE LAST STRAW

The last straw on the camel's back has been the Fourth General election. The party in power made up its mind to cling to power even at the cost of demoralising themselves and the electorate, and the following specimens of unfair play should suffice to prove that failure of devaluation was the product of shortsighted and selfish manoeuvres:

(1) Promise of abolishing land revenue, now followed by reservations, amendments, postponements and alternatives.

(2) Several wage boards stepped up pay packets by hundreds of crores of rupees often with retrospective effect, with little reference to the concerned 'industries' ability to pay.

(3) Fringe benefits to labour, with no reference to the industries' gross profits, all this to make sure of labour votes.

(4) Central and State Pay Commissions which again involved frequent increases in pay scales and allowances, State employees vying with Central employees —and leading to deficit financing—contravening solemn promises to abstain from deficit financing, once again a vote-catching contrivance.

(5) Land Reforms apparently for the benefit of the tiller of the soil, but in fact exerting restrictive influence on agricultural production.

(6) Fixing procurement prices higher than justifiable, here again to make sure of votes.

ECONOMIC NON-ALIGNMENT

India is a Sovereign State and can and must evolve and pursue policies suiting the national economy, with no reference to foreign opinion or threats: we sorely need an economic non-alignment! There have been cases of repudiation of foreign debts and expropriation of foreign assets without compensation, as it happened in the U.S.S.R. and Indonesia. But today, the former country is wooing foreign capital for this or that industry, and capitalist governments are anxious to invest in Indonesia. What is the lesson before us? We must declare categorically our determination on principles of military discipline, 'stand at ease', and 'as you were' and revalue the rupee *towards* the level prior to 6 June 1966. All other things should be suitably adjusted with efficient production and administration at home and friendly negotiations abroad. The new Finance Minister has not ruled out the principle of revaluation, and all interests in the country should co-operate in achieving the aim, even at the expense of slashing imports (except fertilisers) and postponing the Fourth Five Year Plan. Revaluation by stages can and must end

Devaluation damages. Pakistan and Ceylon did not devalue in sympathy on 6 June 1966, but they have not been the worse off on that score, from the view point of external assistance. If Cuba could resist domination by the U.S.A. for years, if South African and Rhodesian Whites could live and live well against world opinion and threats, it would only be too reasonable for the Indian Finance Minister to expect the International Monetary Fund which misled India into devaluation, to agree to be led by India to the right path of thinking: both U.S.A. and U.K. declined to agree to devalue their currencies in spite of recommendation by the Fund.

Annexure to Section I

ONE YEAR AFTER DEVALUATION: A REVIEW

Strange are the ways of history. Within a year of Devaluation, we are back where we were before this disgraceful decision. All the symptoms which pseudo-economic surgeons like Bernard Bell and Ashoka Mehta diagnosed to warrant the surgical operation have reappeared. According to a Government note on July 5, 1966, 'Devaluation was designed to push up exports and largely in replacement of the subsidies and incentives', given for exports. The country was told then that as much as 25 per cent of the exports including even cotton textiles should move up with some or other assistance and there could be no escape from Devaluation. But what is the position one year after Devaluation? Slowly and surely, subsidies and assistance have been reintroduced in a wide range of export commodities, even in cotton textiles. The only difference is that instead of Import Entitlements and Tax Credit Certificates, there is now cash assistance and import replenishments. But this is old wine in new bottles. What is more interesting is that even in 1967, exports move up (about 25 per cent) with assistance. Thus, devaluation has not improved export promotion in any way. In fact, devaluation has played havoc with the export trade of the country. Within 12 months after devaluation, the export earnings have fallen by as much as 11 per cent as compared with the 12 month period preceding devaluation. The batch of devaluationists were declaring that if we withdraw these subsidies, exports might fall to Rs 700 crores or less. This has become 100 per cent true. Exports were just a little over Rs 700 crores (pre-devaluation rates). Unfortunately, this fall was in spite of subsidies and devaluation. Why had the devaluation led to a fall in exports? According to all known laws of economics, it should have led to an increase in export earnings. Thanks to Sri Manubhai Shah, prior to devaluation, export trade became a big racket and a source of excessive profits and of earning black money. The so-called import entitlement scheme was nothing but a bait to private traders to indulge in all sorts of malpractices and earn large sums of foreign exchange at

huge costs to the nation. The premiums on import entitlement in certain areas were as high as 400 per cent. Thus, export trade became much like black trade. After the withdrawal of the scheme of import entitlement, the scope for earning excessive profits and black money had shrunk. With this, private traders lost interest in the export trade and even 57.5 per cent of devaluation did not enable them to earn as much black money as in the hey days or Sri Manubhai Shah. Moreover, local export traders entered into an unholy alliance with foreign buyers to scuttle Indias export trade. Day in and day out, the federation of Indian Chambers of Commerce and Industry raised a hue and cry to increase export subsidies and abolish export duties which were levied on some traditional commodities like Jute and Tea and protect their export value. So loud was their propaganda that many foreign buyers thought that concessions were in the offing and in the hope of getting a share in this, they sat pretty quiet. They postponed as far as they could, buying of Indian goods. Unfortunately, the government also became a party to this anti-national game. It reinforced the impression that it was giving a sympathetic consideration to the demand for export promotion. During one year, it revised twice its scheme of export assistance. What is more deplorable is that even now, it has not put an end to the expectations of both Indian and foreign traders to secure more concessions. It is believed that Sri Morarji is now planning to reduce further export duties on Jute. A study of the impact of devaluation on 116 projects conducted by the Industrial Finance Corporation indicated that 'their project cost increased from Rs 386.37 crores to Rs 460.95 crores, i.e., Rs 74.58 crores'. In other words, the cost of industrialisation has increased by about 20 per cent. Thus, what we find after one year of devaluation is that industrialisation has slowed down, substantial portions of exports move up with assistance (which means reintroduction of selective devaluation and multiple exchange rates), and prices are going up (the wholesale prices have gone up by nearly 25 per cent), and the rupee is once again quoted at a discount in the market (Rs 12 for one U.S. dollar and Rs 30 per pound). In short, unless radical economic policies are pursued, the situation is ripe for yet another devaluation. The I.M.F. had asked us for a 75 per cent devaluation. We did it by 57.5 per cent. The Bank will not rest until we succumb to it completely. No doubt Britain has just devalued the pound by 14.3 per cent, against general expectations. The push towards E.C.M., the growing displeasure of the U.S. Government with U.K. Vietnam policy and the middle east crisis involving the closure of the Suez Canal—these were the main factors that made devaluation unavoidable. But the dimension of devaluation is small and accompanied by more powerful measures like an external loan of about U.S. dollars 3,000 m., reduction of public expenditure by about £ 400 m. per annum, raising of the bank rate to 8 per cent and effective steps to stimulate exports and curb consumer expenditure at home.

SECTION II

PLANNING

Chapter VI

THE INTERNATIONAL BACKGROUND

OUTLOOK FOR WORLD ECONOMY IN 1967

The year 1966 ended on a pessimistic note in the economic field, following signs in the U.S. that this year's exceptional growth slackened off, with inevitable consequences for world trade. In 1966, the economic growth of the U.S. stood at 5.5 per cent. Although this was 0.5 per cent down on 1965, it is still an improvement on the drop of 1.5 per cent expected by American experts for 1967. After a period of almost completely stationary prices in the last ten years, prices rose by 2.5 per cent in the first quarter and by 4 per cent in the third quarter of 1966, and interest rate was increased to combat this inflationary tendency. As a result, automobile production and building dropped considerably, but the U.S. Government was able to cover the gap by returns of short-term and even longer capital investment through persistent deficit in the balance of payments.

In Britain, economic growth was practically non-existent—a figure of 1 per cent—and in 1967 complete stagnation is expected. On the other hand, by various economic measures, the maintenance of a 'punishing' rate of interest, a tax on employees in small firms aimed at aiding the exporting industries, and an employment situation visualising 7,50,000 unemployed by mid-1967—by these means, the Labour Government has succeeded at least partially—in restoring the balance of payment situation. By next autumn, it should have a surplus of several hundred million dollars, but at the same time, it has not yet paid back all the different short-term loans granted in June, 1966 to back the pound sterling. Without the consolidation or renewal of these loans, it is very uncertain that Britain will be able to reach the desired balancing of accounts. By the end of October, these debts amounted to some five hundred million pounds.

Another European country, West Germany, also finds itself in a difficult situation financially. The increase in production here has dropped considerably, from 5 per cent at the beginning of 1966 to 3.5 per cent at the present time, and it is expected to stay at that figure for 1967. Since the middle of 1964, inflation has made its appearance, and salaries and prices have increased much faster than production.

In France and Italy, production figures have continued to grow from 3.5 per cent in 1965 to 4.5 per cent for France, and 5 per cent for Italy, with an expected 5.5 per cent in 1967.

In under-developed countries, the tendency to have a diminishing share of exports in total world trade, continued. Food shortages became more apparent, due to the increase in population and the simultaneous inefficiency of their agricultural systems. The food surpluses accumulated during the years by the big

producers have also melted away, due to massive purchasing by Soviet Russia and China, and the supplies in aid to India, Persia, Egypt and other countries in need. India in particular will be affected by the absence of food surpluses to bring up her food supplies to the minimum needed.

CAPITALIST-COMMUNIST CO-OPERATION: SYMBOLIC OF WHAT IS COMING

Negotiations between Italy and Russia for what is thought would be the world's biggest gas pipeline, are approaching a successful conclusion. The pipeline will supply gas from the Tjumen area, east of the Ural Mountains to Western Russia, Hungary, Northern Yugoslavia and Italy. Its terminal will be in Trieste. It will be over 2,000 miles long. The diameter of the pipeline is 48″ and will probably be the largest projected. The negotiations are being conducted in the greatest secrecy on the Italian side.

The operation is being handled by an *ad hoc* Consortium, headed by the ENI Oil Corporation. The General Manager of the ENI went to Russia for discussions in August 1966. Since then, the negotiations have made considerable progress. A delegation of the Snam Company of the ENI Corporation, headed by the Company's Managing Director, Signor Sacchi, is conducting the negotiations in Russia. The only major, still unsettled point is the price of the Russian gas. On the Russian side, they have been handled in Italy by the head of the Russian Commercial Delegation. Engineers of an important Steel Group flew to Russia to discuss the characteristics of the pipe and its manufacture. Apparently, the pipeline will be owned by the Russians, but will be built by the Italians. They will receive payment for it in Russian natural gas supplied through it. The figure, which is being mentioned, is 1,30,000 million cubic metres of gas spread over a number of years. The steel pipe will be supplied by Finsider, but a Russian process and Russian machine will be used to manufacture it. Italy's natural gas field is running out. At the same time, the demand for gas is increasing. In about 10 years time, it is expected that Italy will have to import 10,000 million cubic metres of gas every year. Under an agreement with Esso, 3,000 million cubic metres will come by tankers from Liberia. Negotiations with the Algerians for Sahara gas have been dragging on for the last couple of years without making any progress.

TWO HIGHWAYS ACROSS ASIA

The U.N. Economic Commission for Asia and the Far East was told recently that across Asia, the highway to the Middle East might be completed by 1970. The eight-year-old project envisages two through highways, comprising new roads and existing roads brought up to minimum international standards. One highway is to run from Saigon to the Iranian-Turkish border, the other from Singapore and Indonesia to the Iranian-Iraqi border. A recent meeting adopted a resolution urging greater co-operation to help the region's development. The resolution

tagged to the 'Tokio declaration'—was sponsored by 14 ECAFE members, including India, representing both developed and developing nations. The declaration urged ECAFE members to promote 'co-operation' among themselves, and help from the developed nations in the region's development. Among the sponsors of the declaration were India, Ceylon, Malaysia, New Zealand, Pakistan, the Philippines, Singapore and the U.S.

THE PROFIT CONCEPT IN SOVIET ECONOMY

PLANNING comes in contact with technology, social relations, politics and psychology, but its cardinal sphere is the economy. The social function of planning is to supplant the market element with conscious activity and thereby permit the economy to advance from the realm of blind necessity to the sphere of known laws. In 'Capital', Karl Marx wrote that what distinguishes the worst architect from the best bee is that from the very beginning, before building a wax cell, he knows exactly how he is going to build it. In other words, conscious purposeful activity is what distinguishes the architect from the bee and a planned economy from spontaneous economic development.

More than 40 years ago, the Soviet Union was the first country in history to embark upon planned economic development. In Europe, America, Asia and Africa, scores of countries are today developing various fields of their economy by plan. Planning is championed by adherents of the most diverse political convictions that have nothing to do with socialism. 'The possibility of national planning for economic development is almost universally recognised today'. U.N. Secretary-General U Thant noted 'the fact that in recent years, countries have made use of planning in one form or another' attests to this widespread recognition.

The essential and basic differences in the social and economic conditions obtaining in individual countries make it impossible to speak of planning as a single and uniform system. The main differences spring from the existence of two social systems: the socialist and the capitalist. Socialist planning is founded on social or State ownership of the implements and means of production. Capitalist programming pre-supposes the existence of private ownership with a small nationalised sector or even in the absence of such a sector, a distinction must be drawn in the case of planning in the developing countries, which are frequently termed countries with a mixed economy. A feature of these countries is, on the one hand, their low level of economic development and, on the other, the fact that the state sector plays an important role in their economy. It would therefore be correct to speak of three types of planning: socialist planning, capitalist programming and planning in the developing countries.

In the Soviet Union, the principles of socialist planning mirror the system established by the Revolution of Workers and Peasants. Socialist planning is based on social—state and collective—ownership. That makes it objectively necessary as the only possible method of regulating social production. Its cardinal

aim is to plan production in conformity with social requirements. The fact that, in the main, national, collective and personal interests are in harmony makes for the achievement of this aim.

One of the general principles of socialist planning is expressed in the formula: minimum expenditures and maximum results in the interests of society. When a country's enormous economic mechanism develops by plan, this formula can be implemented only on the basis of advanced scientific achievements. Under socialism, the special function of planning is that it brings to light the requirements of society as a single organism and seeks the most effective means of satisfying these requirements. Moreover, it answers two basic questions, namely, *what* to produce and *how* to produce it. Socialist planning is inconceivable without incentives for factories and individuals. Production may be planned correctly and scientifically, in accordance with requirements, but if economic incentives are lacking, the plan will be no more than a scrap of paper.

The 23rd CPSU Congress endorsed the basic trends of economic reform expounded in the decisions of the September 1965 Plenary Meeting of the CPSU Central Committee. The substance of these decisions is that while preserving the decisive role of centralised state planning, they give the green light to the profitability motive and to economic incentives. Under social ownership, the key positions in economic development, primarily in deciding the proportions of production and the distribution of investments and labour, may be determined only from the stand-point of the national economy as a whole. But it is up to the factories themselves and to the production associations to decide current production and how to utilise the resources at the disposal of individual sub-sectors of the economy with the aid of economic levers such as price, profit and credit. This implies the broad development of direct contacts, which can, from top to bottom, tie up production with the growing requirements of the population most successfully. The results of the work of each enterprise will now be judged, not by gross output but by sales and the output of the goods for which there is the greatest demand. The switchover to the sales index makes enterprises directly dependent on how necessary their output is to society. If sales are slow, profits will drop and the encouragement and social and cultural funds diminish.

The central economic objective of the new Five Year Plan is to secure a further upswing of industry and agriculture and considerably improve the standard of living by making comprehensive use of scientific and technical achievements, promoting the industrial development and efficiency of social production and raising labour productivity. This is linked up, on the one hand, with a further expansion of production, and on the other hand, with a maximum increase in its effectiveness. Every target in the Plan has been carefully weighed, checked and double-checked. By 1970, when these targets are reached, new capacities and output will be expanding at an unprecedented rate. For example, the national income will be four times the 1950 figure. Over the next five years, its rate of growth alone will eclipse the combined national income growth rates of Italy, Austria, Canada, Switzerland and Denmark.

A key task of the Five Year Plan is to secure a steep increase in the output of farm produce. State investments in agriculture are to be doubled. One of the trends of the new Five Year Plan is that the growth rate in agricultural output will climb closer to that in industry, and the gap between the rates of growth of the means of production and of consumer goods is to be narrowed. Between 1966 and 1970, the development of socialist industry and agriculture will make it possible on the average to increase wages and salaries by at least 20 per cent and enable collective farmers to receive 35-40 per cent higher incomes in cash and kind from the socialised economy. At the same time, benefits from the Social Consumption Funds (social insurance, allowances, pensions, paid holidays, education, free medical care, and so forth) will increase by about 40 per cent. That the significance of the Five Year Plan ranges far beyond the U.S.S.R. is recognised throughout the world. Socialism has developed into a world system and the experience of the Soviet Union and the fraternal socialist countries is being emulated on a world-wide scale. Planning has achieved tangible successes.

WORLD CAPITAL MARKET INTEGRATION

The trouble with the Report on the International Capital Markets Mechanism issued by the OECD recently is that it is so concerned with telling us how much better it would be if world financial markets were integrated, but it fails to probe adequately the all important question of why the world is at present showing a tendency to go backwards rather than forward in this field. For, had it done so, it would not only have discovered that it was putting the emphasis on the wrong place in calling for international rather than domestic capital market liberalisation at this stage, it would also have brought it to the conclusion that a prerequisite of worthwhile progress towards the liberalisation it considers so desirable, is a change of attitude in its own ranks towards international liquidity reform and other related issues.

The theme of the Survey of the post-war history of capital market evolution included in the OECD Report is that things were going fine up to about three years ago, member countries having carried out well the job of channelling savings into productive investment and thereby providing the basis for a good rate of economic expansion. But more recently, the position has not been so good. In particular, there has been a tendency for interest rates to rise and for member countries to subject their markets to an increasing burden of restrictions.

The Report goes on to argue that it would be in the interests of all OECD countries to eliminate the tensions that these unfortunate new trends have produced and to press forward with the integration on an international basis of domestic capital markets. National policies aimed at combating inflation and encouraging saving have a big part to play here, it contends, but capital market reforms are also needed—more particularly reforms that would combat the present widespread tendency for savings to accrue in forms in which they are of little use to those activities that most need their assistance, like industrial development.

Such assessments of the situation on the world capital markets front are, of course, in vogue. In fact, all the conferences of top-level bankers, economists and financial experts held this year seem to have come up with similar weighty pronouncements about the importance of expediting the integration of domestic capital markets so that the available supply of savings can be distributed to best effect.

But, while no one can take exception to the expression of such sentiments, it is evident that any realistic attempt to answer the question of how the functioning of the world's capital market machinery can be improved, ought to start with an investigation into the reasons for the deterioration that has taken place during the past three years, seeing that the key to the immediate problem of getting the trend reversed is most likely to be found here. There is, unhappily, very little evidence that the OECD investigation got down seriously to this part of the task.

Had it done so, it could hardly have failed to see that there is the closest of connections between the tendency for capital market liberalisation to go into reverse and the recent growth of international payments tensions. It is not only that the critical turn in the payments circumstances of the two countries that have hitherto been making most of the running in the liberalisation of the international capital market—the United States and Britain—has put pressure on them to restrict access to their home markets by foreigners. It is also the case that, because American and British business concerns planning development abroad have consequently been impelled to look more to foreign capital markets for additional funds, other countries have often found themselves having to choose between limiting foreign access to their markets and seeing industrial and other development at home starved of finance.

It is evident that, as things stand, the U.S. and the U.K. have no intention of reversing for some considerable time the steps they have taken away from the liberalisation of capital movements. It is also evident that there is little hope of other advanced countries seeing their way clear to do much in the way of capital market liberalisation in the international sense so long as Anglo-American capital export restrictions are adding to the difficulties they have been experiencing in keeping the supply of capital equated with the demand at home.

In short, any marked advance towards integration of capital markets must now await a relaxation of international payments tensions. This, of course, is going to be slow in coming so long as so many of the official experts—including no doubt some of those who were responsible for the OECD report on capital markets—continue to insist that the situation on the payments front gives no real cause for concern and is certainly not so working that there is any urgency about the need for international liquidity reform.

One would have thought that, in the meantime, the main liberalisation effort should be aimed at encouraging advanced countries with backward capital markets to concentrate on seeing that the domestic demand for capital can be met more easily from domestic savings. Of course, in many cases, there may be a certain amount of room for liberalisation of international traffic too. But, generally speaking, these countries will be helping most to ease international capital market tensions if

they direct their attention, not so much to giving foreigners wider access to their markets as to making it less necessary for home users to turn to foreign sources for their needs.

One thing that should be a big help here is the decision of the Central Banking Community to end the interest rates war which was waging last year. As the OECD survey pointed out, one reason why many capital markets are less valuable than they should be is to be found in the preference savers have been manifesting in most countries for liquid assets rather than longer term investments.

SWISS BANKS AND INTERNATIONAL LIQUIDITY

Since 1951, the World Bank has made no fewer than twelve issues of its bonds in Switzerland, for a total of 780 m. Swiss francs (about £65 m) although Switzerland is not a member of either the World Bank or the I.M.F. Last year saw the first issue, for Sw. Frs. 50m., for the Inter-American Development Bank. It is also a fact that if one looks through the list of 'obligations estrangers' quoted on the Swiss Stock Exchanges, one will find that many foreign countries and companies have raised funds there. Between 1945 and 1966, in fact, foreign issues in Switzerland have totalled Sw. Frs. 6,503 m. (£542 m.) and in addition, the Swiss investors have participated to an unknown but substantial extent in many loan and share issues by foreign countries and companies and have been substantial buyers of other countries securities. Switzerland could have done more. But for a country with a population of only 6 m. people, the Swiss had done their fair share in foreign lending. If the other European capital markets did as well proportionately to their populations and resources, there would be no problems in the International lending field.

In the last year or so, however, it has to be recorded that money has been getting increasingly tight in Switzerland as elsewhere, and there has been an agreement between the Swiss National Bank and all other banks to limit the annual increase in the volume of loans. Nowadays the waiting list of borrowers is long and regulated by the Central Bank. The thing that worries the Swiss bankers is this business about the 'gnomes of Zurich'. The description itself does not really worry them. The joke, it is clear, has worn a little thin. But they accept that they are stuck with the label more or less for good. What they do object to is the implication in it that they live by currency speculation: that they emerge from their caves whenever there is talk about a currency devaluation or appreciation and make vast fortunes by selling this currency short or going a bull of that.

Now one thing is sure, Money—all money—is terribly important in Switzerland. At the end of 1965, Switzerland's *per capita* surplus of assets over liabilities amounted to $U.S. 1,702—almost 5½ times as much as the corresponding figure for the U.S. ($315). In 1955, the assets of the Swiss banking system *vis-à-vis* foreign countries amounted to Sw. Frs. 3,200 m. and the liabilities to Sw. Frs. 3,800 m. By the end of 1965, the figures, including the swap operations concluded with the Swiss National Bank, had risen to Sw. Frs. 18,300 m. and Sw. Frs. 16,900 m.

respectively. If one puts the comparable assets of the German, French and Swedish banks together, they just about equal the Swiss banks' total. It is not very surprising, therefore, to learn that there are 1,591 banks or allied institutions in Switzerland, with over 4,000 offices and agencies, and that they had resources at the end of 1965 of Sw. Frs. 96,700 m., or roughly double the gross national product of Switzerland. But there is a good deal of concentration—the five big banks account for 35 per cent of the resources and the 28 Cantonal banks for another 31 per cent. Not only is money important in Switzerland quantitatively, but also the Swiss believe that money should be made to work: they just don't believe in hoarding. But there are snags in managing money in Switzerland. Of the total liabilities of the big five banks, some 44 per cent represents sight deposits, and because of this, there is a corresponding emphasis on short-term lending. But Switzerland lacks a short-term money market of her own—largely because the Government does not need one—and the banks are therefore forced to place some of their excess liquidity abroad to earn interest, thus introducing foreign exchange risks. These risks, however, are covered by foreign exchange swaps.

The large Swiss banks certainly do not speculate in foreign exchange on their own account. But they do run one of the world's biggest foreign exchange and gold markets, which does most of its business on behalf of the banks' commercial or industrial customers, who either have a foreign trade commitment or want to hedge against the exchange risk resulting from a regular commercial transaction or from an investment in a foreign currency. If there is a balance of payments crisis in Britain, and fears of Sterling devaluation are rife, is it surprising if foreign customers of the Swiss banks with claims in Sterling ask the banks to find a buyer for the sterling they wish to sell? That the banks do so does not mean they are bears of sterling. If they were, would Switzerland have assumed commitments of $120 m. for the support of the pound in 1965 and 1966?

Every banker spoke very warmly of the recent recovery in U.K. which has gone so far that the Swiss say that all the Central Bank assistance provided last year has already been repaid. *To not one of them did the idea of devaluation of the pound make sense.* They may, indeed do, find a different attitude among their clients, who on the whole won't buy sterling securities, either because of the expenses involved, the complications of British tax reclaim procedures, or their doubts about sterling. But the bankers, travelling the world over as they do, see nothing wrong with U.K. prices and *are convinced that devaluation would not solve British problems.*

U. S. CONGRESS WILL BE ASKED TO FREE GOLD STOCK

The United States Administration will shortly ask Congress to free the entire American gold stock for international transactions by repealing the law which requires a 25 per cent gold backing of the currency. The final decision to do so has not yet been taken, but it is clear after the recent alarms and excursions that it is no longer a question of whether to repeal the law. But when high officials are

increasingly inclined to press for action this summer on a repealing bill already placed before the House of Representatives by Congressman Henry Reuss of Visconsin and all the signs are that the new situation will be in force by the end of the present Congressional session: the amount of gold available to meet foreign demands would be increased by this move from the present $2,800 million to the full $13,100 million contained in the United States gold stock, and the ration of foreign claims to 'free' American gold holdings would be reduced from 10-1 to only about 2-1.

The chief argument against the move in the past has been the supposed 'disciplinary' effect on domestic inflation of the gold-cover provisions. But Mr William McChesncy Martin, Chairman of the Federal Reserve Board and the main proponent of this argument, has regretfully abandoned it as unrealistic and now points out that the normal expansion of the currency will force a change in the law within three years. In any case there is little opposition to a change in the Congress mind. The fact is of course that provided the United States intends to continue the gold exchange system with the dollar at its centre, the present gold cover simply cannot be maintained and from recent events there is no reason to doubt that the United States would rather accept further reductions in her gold stock than alter the system.

ECAFE ACTIVITIES

A REGIONAL payments scheme was considered by financial experts of ECAFE countries at a meeting held recently in Bangkok to promote closer trade co-operation in the region. The ECAFE programme of works and priorities in the field of trade for 1967 and 1968 also includes the question of reducing trade barriers among member countries.

The objective of the projects proposed for 1967 and 1968 remains the same as those for 1966. The activities of each project, however, differ in some respects. The implementation of the programme will be subject to the availability of adequate funds and resources. During 1966, the ECAFE secretariat continued to provide substantial assistance to the committee on preparatory arrangements for the establishment of the Asian Development Bank. The committee held five sessions during the year 1966: the first in January, the second in May, both at Bangkok, the third in June, the fourth in August-September, both at Manila, and the fifth session in November at Tokyo. The secretariat also assisted in servicing the meeting of officials and of the members of ADB in November and the inaugural meeting of the Board of Governors in November, 1966, both at Tokyo.

The eighth series of the intra-regional trade promotion talks were organised at Bangkok in November, 1966. Apart from arranging facilities for holding 147 bilateral talks among 18 participating countries and for several group discussions, the secretariat supplied a number of background documents including a summary of trade and payments agreements concluded among countries of the region and voluminous trade statistics. Substantial technical assistance was rendered to the Government of Thailand in organising the First Asian International Trade Fair at

Bangkok and to other governments of member countries of the region in their participation in the Fair. This was achieved by a regional adviser provided under the U.N. Development Programme. The secretariat also contributed papers on market potentials of selected manufactured goods at the technical seminars convened by the host country in conjunction with the Fair.

Regarding the project on shipping and ocean freight rates the secretariat rendered advisory services to member countries in the implementation of various ECAFE recommendations, especially those concerning the establishment of consultative machinery, creation of freight study units and the development of national merchant marine and other shipping facilities. The ten governments who requested the ECAFE secretariat for advisory services are: Cambodia, Iran, Malaysia, Pakistan, Republic of Korea, Philippines, Republic of Viet Nam, Singapore, Thailand and Western Samoa. Second requests were also received from Singapore, Philippines and Thailand for advisory services supplementary to those already rendered. The requests were from one week to three months. With the exception of those from Cambodia, Pakistan, the Republic of Korea and the Republic of Viet Nam, all requests were carried out in 1966.

For this purpose, the services of the ECAFE regional adviser on shipping and ocean freight rates provided under the U.N. Development Programme were utilised. After each visit, a report containing recommendations was submitted to the government concerned. In addition, several papers were prepared by the regional adviser requesting Government action on certain aspects of shipping. The subjects of these papers included organisation and functions of national shippers' councils, an outline of international merchant shipping activities, and a South-East Asian shipping pool. Close co-operation and co-ordination were maintained with UNCTAD and the ECAFE Inland Transport and Communications Committee. The ECAFE secretariat made substantive preparations for convening a meeting of experts on the financial aspects of trade liberalisation scheduled for 1967. It also assisted governments in their examination of the recommendations contained in the report of the working groups of experts on trade liberalisation, to find practicable ways of applying appropriate trade liberalisation measures and expanding intraregional trade in the context of increasing World trade.

The secretariat devoted considerable attention to the work related to co-ordination with other international bodies, particularly the secretariat of the U.N. Conference on Trade and Development Board and its subsidiary bodies. The work involved preparing studies on specific problems of trade in the region, on shipping and ocean freight rates and on international commodities trade as well as collecting the views of member countries on trade policy matters for presentation to the World Forum. Regarding international commodity problems, the secretariat prepared a study on regional co-operation measures for the promotion of trade, which was submitted to the tenth session of FAO study group on rice held in November, 1966. The secretariat participated actively in the work of the rice study group. It also participated in the third session of the FAO study group on jute, kenaf and allied fibres, held in September, 1966. The activities concerning the promotion of

the use of commercial arbitration involved dissemination of information on court decisions, articles, and other data relevant to commercial arbitration and conciliation. With the assistance of the office of the legal affairs of the U.N., the ECAFE rules of international commercial arbitration were prepared in accordance with the principles adopted by the ECAFE Conference on Commercial Arbitration. Other trade activities during 1966 included rendering advisory services to member countries of the region on trade policy matters, transit trade problems, organising of trade promotion machinery, preparing a study on tariffs and promoting regional co-operation in customs administration.

SAVINGS-INCOME RATIO UP IN ECAFE REGIONS

THE ECAFE's economic survey for Asia and the Far East devotes a section to a special study of the 'Aspects of Finance of Development'. The findings of the Study confirm the importance of capital formation for economic growth and show that the savings-income ratio has increased in most developing countries in the region. The Survey shows that the increase in the savings-income ratio has been more pronounced in countries which have been successful in consistently maintaining a fairly high rate of economic growth. These countries also show a steadier savings income ratio than the others, especially in the second half of the decade, indicating a more stable relationship between savings and income at higher levels of income. The savings ratio of the rapidly growing countries compare favourably with those in some of the developed countries, such as the United States of America and the United Kingdom. This, however, should provide no reason for complacency as they still lag far behind the savings ratio generated by rapidly growing countries such as Japan and West Germany. The Survey discloses that new ECAFE savings statistics have been constructed for the study. The generally adopted method of estimating savings residually has been employed and domestic savings are defined as the difference between gross domestic capital formation and the deficit of the balance of payments on current account. However, grants, which are essentially foreign savings, were excluded from the current account balance, resulting in lower but more realistic estimates of domestic savings than those generally published. Policies for the mobilisation of resources are invariably directed towards the savings behaviour of sectors or sections within the economy. In countries for which data are available, it is the private sector which provides the bulk of domestic savings. The principal problem of internal resource policy is therefore how to transfer resources within the economy, especially from the private to the public sector. The Survey observes trends towards economic liberalisation which will require adaptation of development plans without degrading the importance of planning itself. Economic liberalisation, however, may lead to increasing inequality in the distribution of income. Concern over this development has already been expressed in several countries of the region. It is felt in these countries that the shift in income from wages to profits might lead to an increase in

savings ratio. The conflict would thus appear to be between the desire to achieve economic growth and the social objective of lessening income inequalities. Actually, such a dilemma may not necessarily exist, as recent research findings have thrown considerable doubt on the assumption of a relationship between inequality of wealth and income and the level of savings. Many developing countries in the ECAFE region have been suffering from increased inflationary pressures, and the principal problem of most development programmes seems to be the transfer of resources to the public sector without setting off inflationary forces. The institutional resistance towards a greater taxation effort aggravates the danger of inflation which accompanies an increased resource transfer to the public sector. The extent to which inflation could contribute to the mobilization of resources for development depends upon a complex interplay of various factors which tend to limit the area of its successful operation. Inflationary finance also raises serious problems regarding the application of monetary principles.

COLOMBO PLAN COUNCIL REPORT: 1965-66

The Colombo Plan Council for Technical Co-operation has asked countries of the region to give higher priority for development of agriculture than industry and to reduce their population increase to practical limits. The annual report of the Council says that the region's exploding population and the growing needs generated by development call for a deeper motivation, solidarity of purpose and intensification of efforts, both by countries outside the region and the countries within. The report observes that population increase within the region is as great as, if not greater than, anywhere else in the world, excluding Latin America. Unless appropriate action is taken not only in the region, but throughout other areas in the world, mankind will be faced with a condition where it will be impossible for economic development to advance or even hold its own. It says in India, for instance, only 2.2 per cent of the world's land area has to support more than 12.8 per cent of the world's population. Quoting FAO statistics, the report points out that the gain in world production of rice in ten years was 25 per cent, but the gain in yield was only 1.4 per cent per year in the world as a whole. One-third (1,000 million) of the world's population lives on rice. By the end of the century, this will rise to a half. The report urges that despite the delicate nature of the subject, a Government should not shrink from explaining to its people that the hope of realising their expectations is not possible so long as the country's high population growth consumes the results of its economic development.

The population problem, it adds, is probably the most urgent one facing the region. The ability of a country to reduce to practical limits its population increase has a direct relationship to its economic development and hopes of raising its standard of living. The report observes that the problems encountered by the countries are many and complex in proportion to the magnitude of the endeavour and there is need for more efficient programming of technical assistance, more realistic planning of the development needs of each country and the correlation of

assistance to such needs, study of the financial aspects involved in the transfer of resources and systematic co-ordination among all the contributing elements and the recipient agencies. Discussing trends in technical co-operation, the report records that since 1950, technical co-operation has enabled 42,484 Asians to acquire specialised technical training, provided 8,571 experts, consultants and advisers to the region, and supplied equipment worth £99 million, all of which made a total expenditure of £268.6 million on technical assistance to the region. The United States maintained its position as the major donor country providing 35 per cent of the scholarship awards during 1965-66. Australia was the second largest donor with 702 awards, Japan (636) and Britain (582) while increased training places were recorded by Canada, India and New Zealand. The largest number of awards were secured by India (605), followed by Malaysia (504) Thailand (468), Vietnam (437), Pakistan (401), Philippines (375), Korea (284), Laos (277), Afghanistan (273), Nepal (271) and Ceylon (184). On intra-regional training, the report observes that there is a considerable area of skills at the intermediate level in which the countries of the region can share their facilities. During 1965-66, India was the principal regional donor to intra-regional training programme providing 298 awards—more than 93 per cent of the regional total.

The report emphasises that the expansion of intra-regional training was essentially a long term effort and in the embryonic stage, progress tends to be slow and results proportionately small. Moreover, the Colombo Plan Bureau's programme for the promotion of interregional training had changed in character from what was originally envisaged and was now concentrated on building up sound national training programmes as an indispensable prerequisite for the development of regional training programmes. The largest numbers of awards was in the field of education (1,096). More than 26 per cent of these were for technical education, which is one of the prime needs of the region. The other major fields of training were administration (698), food, agriculture and forestry (685) and medical and health (443). During the year under review, expenditure rose from £39.5 million in the previous year to £47.9 million. There was a steady increase in expenditure over a decade and a half which was coupled with the continuous expansion of the geographical area of operation by periodically admitting new members. The range of assistance also expanded to meet the changing contours of economic and social development.

COLOMBO PLAN: BRITAIN'S AID

BRITAIN spent nearly £103 million during the two years 1964-65 and 1965-66 on capital aid and technical assistance for development in South and South-East Asia. Since the beginning of the Colombo Plan, Britain's total expenditure for these purposes has totalled £397,756,000. The 1964-65 and 1965-66 expenditure —£ 102,902,000—included £ 98,189,000 on capital aid, bringing the total of such expenditure since 1951 to £ 380,652,000. These figures are given in the 14th annual report of the Colombo Plan Consultative Committee published

recently. Sixteen member-countries of South and South-East Asia have combined with the six external members to review economic performance and produce the report. British financial aid to India's Second Plan (1956-61) amounted to £ 80,500,000 and to the Third Plan (1961-66) to £ 185 million. In addition, loan agreements totalling £ 17 million had been signed up to June 30, 1966, as an advance instalment of the pledge for 1966-67. New agreements concluded in the period July 1, 1964 to June 30, 1966 amounted to £ 78,500,000.

Disbursements of the U.K. aid in this period amounted to £ 62,800,000. During the two years ending June 30, 1966, 298 training places were provided including 83 in transport and communications, 54 in engineering, 22 in medicine and health and 39 in agriculture, food and forestry. Of the 45 new Colombo Plan experts who went to India during the period 20 were in technical education, 8 in engineering, 11 in medicine and health and 1 in administration. An expert was also provided to look into the efficiency of India's ports. Substantial technical assistance was also provided, including 81 commonwealth scholarships and 37 teacher training bursaries for study in Britain.

About £ 211,000 worth of further British equipment was supplied to the Indian Institute of Technology, making a total contribution of equipment to the Institute from the British Government of £ 250,000. This is part of £ 400,000 which the British Government and British industry agreed jointly to contribute in addition to the original £ 250,000 for equipment pledged by British industry alone. Other colleges were also given British equipment amounting to about £ 32,000. Britain recognises the problem of the increasing burden of debt facing the developing countries. In June, 1965, she introduced interest-free loans and progressively softened her loan terms. The Report shows member countries had already obtained interest-free loans from Britain worth over £ 66 million. While the bulk of Britain's assistance has taken one or other financial form, the provision of training assistance to education and research in member countries and the supply of professional people is not less important. During the two years under review, 1,511 Asian students underwent training in Britain under the Colombo Plan, bringing the total since 1951 to 36,838. In the two-year period up to June 30, 1966, 196 experts were appointed by Britain to Colombo Plan countries bringing the total since 1951 to 812. The report states that member countries outside the Colombo Plan area—Britain, Australia, Canada, Japan, New Zealand and the United States—have between them provided total assistance of different sorts valued at about £ 7,000 million.

SLOW-DOWN IN EUROPEAN ECONOMIC GROWTH

As seen at present, 1967 promises to be the third year of relatively slow growth of output and economic activity in West Europe as a whole. In 1966, the combined national products of the industrial countries of West Europe increased in volume by about 3.5 per cent, slightly less than in 1965 (4 per cent). The outlook for 1967 is that the overall increase in output will again lie between 3 and 4 per cent. These rates of growth are all below the long-term average rates of 4.5 to 5 per

cent (and well below the 6 per cent reached in 1964). If the projection for 1967 is realised, the years 1965 to 1967 will be the first in the postwar period during which the overall growth rate in West Europe has stayed at or below 4 per cent for as long as three years. These are conclusions of the Secretariat of the United Nations Economic Commission for Europe in the Economic Survey of Europe in 1966, in the Survey's study of West Europe. These three years represent a rather long drawn-out phase during which all of the major countries, and several of the smaller ones, have undergone, or are now undergoing—but not simultaneously—a period of readjustment. Reversion to what has so far been the normal growth of 4 or 5 per cent a year depends more than anything on how soon some extra stimulus appears, or is given, to the growth of demand in West Germany and the U.K. These two countries not only account for about half of the aggregate out of West Europe: they also take over a quarter of the total exports of the rest of Western Europe. The West European economies may be roughly grouped by the points at which they stand in the present cyclical phase. Four countries—France, Italy, Norway and Sweden—enjoyed normal growth rates in 1966 and are likely to continue to do so in 1967, though some signs of hesitation have recently become apparent in France. France and Italy, the first countries to enter a phase of readjustment in 1964, are now in the second year of brisk re-expansion. Norway and Sweden, by contrast, have been the only countries able to avoid sub-normal growth rates in recent years: official projections for 1967 envisage some slight acceleration. In almost all the other countries of West Europe, the rates of expansion in 1966 were substantially below their long-term average rates or threaten to fall below them in 1967.

In Austria and the Netherlands, output was expanding fast in 1966, but the present outlook suggests a significant slackening this year. Denmark and Ireland experienced slow growth in 1966, but there is a possibility of some re-expansion, especially in Ireland, in 1967. The remaining countries—West Germany and the U.K. among the large economies, Belgium and Luxembourg, Finland and Switzerland among the smaller ones—all had low growth rates in 1966; no substantial acceleration can at present be expected in these countries for the year 1967 as a whole, even if re-expansion begins during the course of the year. From the provisional data given, France, Italy and Austria were the only industrial countries where the growth rate in 1966 was faster than in 1965.

The prospect for continued slow growth in 1967, in many Western European industrial countries, derives from a complex of reasons stretching back for some years. The first, and very widespread, reason is the temporarily weakened investment impulse. Though the upsurge of investment around 1964 was short-lived, the subsequent reaction has been drawn out longer than expected. The reaction has been accentuated, and in some countries were originally brought about by the second main reason for the general slowing down in output growth—the policies of demand restraint. These policies were the response to the pressures on pay, costs and prices—and also, at different times in different countries, on external balances. Increasing manpower shortages, as labour reserves were exhausted,

are one of the reasons for these pressures on costs. Moreover, the different elements of weakness have interacted. The demand restraints, although not intended to discourage investment, have inevitably done so. By slowing down the growth rate, they have weakened confidence in the opportunities for new investment; and the use, in many countries, of credit restraints and monetary policy as the main instruments for checking demand have necessarily impinged with most force on investment demand. At the same time, the cost pressures have tended in several countries, to weaken profit margins and thereby the capacity for self-financing. Thus in spite of slower growth of investment, pressures have grown stronger on capital markets. These pressures have been intensified by other developments. First, in several countries, Government financing requirements have increased not only in Central Governments but also in provincial and local authorities. Tax yields, have sunk because of the slower rise in incomes, and have not kept pace with expenditure. Second, the inflow of international capital into Western Europe has slackened. The consequent general rise in long-term interest rates has contributed to the reluctance to invest, to the budgetary problems of public authorities and to the balance of payments difficulties of debtor countries. Such weaknesses, too, have spread from country to country. The most striking example in 1966 was the decline in the growth of West German imports from the rest of West Europe (after an altogether exceptional increase in 1965). Though offset in the aggregate by the big increases in French and Italian imports (which were depressed in 1965), the negative effects on the rest of West Europe of the slower growth in West Germany were far more widespread than the positive effect of the French and Italian expansions. Similarly, the relatively small growth of United Kingdom imports (after an exceptional increase in 1964) had its negative effects on the trade of the rest of Western Europe in both 1965 and 1966. The consequences of this series of vicious circles need not be exaggerated: there are also counteravailing forces. Among the larger economies, continued normal growth in Italy and (in spite of a certain hesitation in the last few months) in France should provide an active stimulus during the present year, as last year. Even without any deliberate policy of re-expansion of demand, economic activity in the United Kingdom should gradually pick up strength. The forecasts for the West German economy, after the recent mild shift in policy towards supporting rather than restraining demand, indicate continued slow growth. Taking account of the diverse movements expected in the other countries, the prospect for Western Europe during the rest of 1967 is one of continued growth of output at something less than the average experience of the last fifteen years. Several governments which have felt obliged to impose demand restraints in the past year or two are now facing the problem of whether the time is appropriate for providing a positive stimulus to faster expansion.

The decision depends on the circumstances of each economy, and in each there are still weighty reasons for continued caution. For some, the constrained policy is the threat to the balance of payments. For some, the constraint is the fear of provoking faster increases in pay, profits and prices. For some again, the constraint is the difficulty of finding the appropriate instrument. Monetary

policy—however effective it may be as a way of checking demand—is of doubtful efficacy as a positive stimulus. To make credit more easily available, or cheaper, does not in all circumstances create the demand for it. At the same time, the use of budgetary policy for expansion is sometimes inhibited by the difficulties of financing indicated above, as well as by political reluctance to accept variations in the budgetary balance as an instrument of economic management. Few governments are subject to none of these constraints, and some are subject to more than one. In both West Germany and the United Kingdom, the major factor in the decline in the growth rate, from the exceptionally fast expansion in 1964 to the exceptionally slow rate of 1966, was the collapse in the growth of fixed investment, especially marked in private investment. In neither country was there any significant increase in total fixed investment in 1966. In both countries, the weakening of the investment impulse was to some extent a normal reaction to the preceding investment boom, and its indirect effects on incomes could alone have been sufficient to account for a significant decline in output growth.

E.C.M. ECONOMY

Peak or Plateau? These terms, borrowed from geography, sum up the debate in which European businessmen and economists are engaged. The point at issue which is simple enough is the present slowdown in economic activity—temporary —a pause for breath before new heights are scaled—or does it mark the beginning of a recession? The question is of great practical importance not only to local businessmen but also producers in developing countries. A recession in Western Europe would mean a fall in the demand for industrial raw materials and semi-manufactured products, and would, therefore, severely handicap India's efforts to increase her exports. Although many economic indicators are pointing downwards, it is still too early to say whether another recession is on the way. With rising populations and markets far from saturated, there is plenty of scope for further economic growth: in many cases, all that is needed is a relaxation of the controls imposed some time ago to curb inflationist pressures. The Common Market Commission believes that in the ECM as a whole, economic activity is still rising. It has forecast an overall rate of growth of about 4.5 per cent for 1967 (the rate achieved last year). The Commission in fact has warned the member countries against relaxing their efforts to contain inflation, for it feels that on balance, prices will continue to rise this year.

By the end of last year, industrial production had fallen below the level reached in 1965. The decline—of some 2 per cent—was largely due to a fall in domestic demand: export orders remained satisfactory, thanks to the relative stability of German prices. Thus in November 1966, orders for the home market were 22 per cent below the level reached a year ago, while export orders were up by 16 per cent. Increasing criticism of the anti-inflationary policy followed by the Central Bank resulted in the recent decision to reduce bank rate by 0.5 per cent to 3.5 per cent. At the same time, the Bank has taken measures to make additional credits available

to German exporters at more favourable rates. As a result of the economic slow-down, the labour shortage which had characterised the economy for several years has disappeared. Unemployment, although generally high during the slack winter season, has now reached a peak, with 600,000 out of work.

Industrial production which accounts for one-third of domestic production, continues to stagnate since first July, 1966. According to some experts, the increase in industrial production this year will be more than 4 per cent—as against the 6 per cent increase required by the Fifth Plan. If domestic demand is somewhat stronger than before, West German exports seem to have levelled off since last spring (even if at a relatively high level). Imports, on the other hand, have begun to rise once again, resulting in a trade deficit for the last few months. The deficits are expected to continue during the coming months, largely because of the economic slow down in West Germany, France's largest customer. Unlike Germany, where the level of investments has declined sharply, France has no problems on this score. It is the strong demand for capital goods which has sustained French industrial production during the last few months. Unemployment has continued to rise, and is now at over 300,000. However, part of the unemployment is due to industrial re-organisation and rationalisation, which in many cases have resulted in increased productivity. Thus in the last two years, industrial production rose by 10 per cent, despite a slight decline in the labour force.

Only in Italy, of all the Common Market countries, has the economy continued to expand at a vigorous rate—by over 5 per cent last year, almost twice the rate achieved in 1964. Industrial production as a whole was up by 12 per cent in the first 10 months of 1966, while the increase in manufacturing was even higher. What is more, there is still some unutilised production capacity and processes are relatively stable. Domestic demand remains buoyant while export orders, which reached a peak in September, are still at a high level. The recent deficit in the balance of payments was due largely to capital movements, and the full year should show a substantial, if smaller, credit balance.

In all three countries of the Benelux Union—Belgium, the Netherlands and Luxembourg—the situation is a good deal worse than in either France or Germany. The Common Market Commission has forecast a slower rate of growth for Holland and an economic standstill for Belgium. Brussels in fact is faced with a government crisis following proposals to raise income and other taxes. In Holland, higher excise taxes on petrol and fuel oil have already come into force, while the decision to reduce income taxes for certain categories of taxpayers has been postponed until July. The problems facing the Dutch economy have proved to be even more serious than was thought some time ago. In 1966, wages and prices increased by 10 per cent in the one case and 5 per cent in the other. According to official estimates, prices will not rise by more than 4.5 per cent this year (as against 2 per cent in France, for example). Meanwhile, home as well as export orders have declined slightly, although in a number of export sectors, demand remains very strong.

In Belgium, the recovery at the beginning of the year proved temporary: by December, the level of industrial activity had fallen to that of a year ago. Part of the country's problem is that its two basic industries—coal and steel—are profoundly affected by the critical conditions in which these industries find themselves throughout Western Europe. For Belgium, the situation is further aggravated by the fact that her coal mines and steel mills are located in the same region, which are twice as depressed as a result.

E.C.M., E.F.T.A. AND KENNEDY ROUND

Mr Wilson's vigorous assault on the Common Market gave rise to fears in some circles that it might compromise the outcome of the Kennedy Round. Although the Commission, which represents the Six in tariff negotiations, resumed its bilateral talks with the EFTA countries in Geneva some time ago, the need for making further concessions to these countries was questioned. The argument for maintaining the *status quo* as regards the British and Scandinavians is based on the assumption that their entry into the ECM is only a question of time, in which case, the argument runs that it is unnecessary to reduce tariffs on products exported by them to the Community. The U.K. and the Scandinavian countries would benefit from the reductions only while they are outside the ECM: once inside, their exports to other member countries would be duty-free. But the concessions extended to them in the Kennedy Round would have been extended to all GATT contracting parties under the most-favoured-nation clause. The Community thus would have reduced many of its tariffs to no purpose. As the Six are likely to remain six for a considerable time to come, they should make every effort to reduce tariffs between themselves and EFTA in order to encourage trade between the two blocks. France may not endorse this point of view, but as the leading French newspaper, *Le Monde*, has pointed out, the Six's Kennedy Round strategy should be based on the possibility of an early extension of the ECM to include the U.K. and other EFTA countries. This possibility has been practically ruled out by the French Government, according to the newspapers, which argue that a reduction in the common external tariff would be welcomed by Paris as it would deprive the other European countries of an 'objective' reason for wanting to join the ECM. The possibility of a purely 'European' solution has been mentioned by observers. The Six would offer the EFTA countries certain concessions which would be negotiated outside the Kennedy Round, as they would take the form of tariff quotas rather than tariff cuts.

THE KENNEDY ROUND: PROBLEMS AND DECISIONS

It is clear from talks with participants in the Kennedy Round that the trade negotiations, which were formally inaugurated in May, 1964, are gaining momentum as the deadline approaches. The time table delegates, have set themselves, assumes that the negotiations must be completed by early spring, 1967 in order to give the U.S. Administration time to introduce the necessary domestic legislation before

the Trade Expansion Act (TEA) expires in June. The Americans have discouraged speculation that the TEA may be extended, in the light of the present round or bilateral talks. By November 30, the developing countries also took stock of their position and modified their offers and requests on the basis of their bilateral talks with the developed countries. As several developed countries were expected provisionally to reduce their offers list (on grounds of inadequate reciprocity by their principal trading partners), developing countries such as India have stressed that products of export interests to them, or those which are not traded between developed countries, should not be withdrawn, and that if they are withdrawn, the developed countries should improve their offers on other products. The extent to which the wishes of developing countries are respected will no doubt depend in part on their own offers. Although reciprocity is not required from the developing countries, they are nevertheless expected to make some contribution towards the common goal—increased trade. Many developed countries have taken advantage of the bilateral negotiations to indicate their wishes in the matter in more specific terms, and in the next few weeks, developing countries had to see how far they could go towards meeting them.

The bilateral talks have dealt with seven main points, although as Mr Valenzuela, the leader of the Chilean delegation, has pointed out, the developing countries could not hope to know the answers until early 1968:

(1) *Exceptions lists:* Broadly speaking, the developing countries want products of exports interest to them excluded from these lists. But countries enjoying Commonwealth preferences are on the horns of a dilemma, as any reduction in U.K. tariffs will mean a cut in their margins of preference. They are therefore pressing a claim for compensation from the developed countries in a similar dilemma. If tariffs are reduced substantially, then their demand for preferences loses much of its validity.

(2) *Compensation for loss of preference:* The developed countries maintain that this point can only be taken up towards the end of the negotiations, once it becomes possible to draw up a balance sheet of gains and losses.

(3) *Cuts of over 50 per cent:* Although the developing countries have been pressing for deeper cuts since 1964, prospects are slight except in the case of tropical products. However, the Six's refusal to make a meaningful offer in this sector may result in a revision of the U.S. offer.

(4) *Tropical production:* A special group was established to deal with these products. However, the commitments of two key importers—the U.K. and the ECM—to their commonwealth partners and Associated States may result in only limited gains for developing countries as a whole. The Scandinavian countries, who have unilaterally abolished many of these tariffs, are expected to launch a new proposal.

(5) *Accelerated implementation of cuts:* The U.K. is in favour of this. The ECM countries favour such implementation only in the case of products

for which developing countries are principal suppliers, while the Japanese are still undecided. All have the necessary legal authority to do so—unlike the United States. However, if the others agreed to cut tariffs at once, the Americans would probably follow suit. An immediate implementation of tariff reductions in favour of developing countries would amount in fact to a declining preference in their favour, as under the Kennedy Round rules, reductions are to be implemented over a Five Year period.

(6) *Agricultural policy:* Developing countries, especially those which are exporters of temperate zone agricultural products, are particularly concerned over the restrictive import policies followed by all industrialised countries. Progress has been slowest in the agricultural sector, however, and is likely to remain so.

(7) *Non-tariff barriers:* In several cases, non-tariff barriers, including quotas, sanitary and marking regulations, variable levies, fiscal taxes, etc. are a greater obstacle to the exports of developing countries than tariff barriers. Although many quantitative restrictions have been removed, those that remain represent the hard core: their elimination will have to be pressed in the GATT.

It is clear that for both developed and developing countries, the critical phase of the Kennedy Round—what it has pleased journalists to call 'the crunch'—is no far off. The latter remain on the fringe of the negotiations however, and it would be unrealistic to expect their position to change. The industrialised countries are pre-occupied by the danger which their division into 3 main trading zones—ECM, EFTA and North America—presents to the further expansion of world trade. Moreover, the fact that the developing countries enjoy duty-free entry for many of their traditional exports has led some of them to adopt an attitude of indifference to the Kennedy Round. The smaller among them have found it difficult to spare the necessary experts for so prolonged a negotiation. A U.S. spokesman complained that American negotiators were waiting for their opposite numbers from the developing countries but few turned up.

However, there has been a growing awareness in recent months among developing countries that their participation is not altogether valueless. The Kennedy Round offers them an opportunity to discuss their export problems with the developed countries on a product-by-product basis, and even to put to the test statements made by the latter in the UNCTAD and elsewhere. As a result of their bilateral talks, the developing countries now have a better idea of what the developed countries are prepared to do for them. At the same time, on the basis of their Kennedy Round experience, they should be able to determine possible areas of agreement, and thus save time at the second UNCTAD in March, 1968. The Kennedy Round has also enabled some 20 developing countries to meet one another in order to see how to expand trade among themselves. This has been one of the most

hopeful developments, according to GATT officials, who clearly attach a great deal of importance to it.

Although some developing countries are more sceptical, a certain amount of progress has been made. They have already exchanged lists of requests, and recently their experts met in Geneva in order to analyse these lists. During the second stage of these negotiations, the developing countries are expected to present their final offers lists. Some delegates' lists were ready in January 1966 to decide on a system of preferences limited to developing countries. Developing countries can also hope to gain from the Kennedy Round because of the most-favoured-nation clause under which tariff reductions granted to one contracting party are automatically extended to all. Thus the American offer covers 92 per cent of all dutiable imports from India. However, the offers by industrialised countries are largely limited to the traditional exports of the developing countries. The question of just which products are of export interest to these countries could only be solved in the course of bilateral talks. At an earlier stage of the negotiations, the developing countries submitted their own lists, but certain of them were so broad as to be valueless for purposes of negotiation. The present round of bilateral talks has helped the developing countries to define their aims more sharply and focus their efforts on specific problems.

Kennedy Round negotiators reached agreement on 5-5-1967 on a package deal to slash tariff barriers and other restrictions affecting four-fifths of the world's trade. While the original aim of a general 50 per cent tariff cut on all industrial products has not been reached, the wider ranging accords hammered out will mean a big liberalisation of world trade. Average cuts in tariffs on industrial goods will probably work out to about 30 per cent. The 54 participating countries account for around 80 per cent of world trade. The cuts in tariffs which apply to tens of thousands of products ranging from canned peaches to cars and should bring down the cost of imported articles to the consumer. The agreement will benefit exporters who have faced high protective tariff walls on key products—like chemicals in the U.S. and will mean stiffer competition for home manufacturers. This will be the case with Britain's steel industry. The package deal will also provide a massive world food aid programme in which rich nations will help feed hungry ones by shipping them four and a half million tons of grain a year. The Agreement came after four years of protracted negotiations.

Announcement of the success came after the negotiators from the world's major non-Communist industrial powers studied compromise proposals put forward by Mr Eric Wyndham Whyte, head of the General Agreement on Tariffs and Trade. GATT sponsored the complex negotiations launched on the initiative of the late U.S. President John F. Kennedy, who saw them as a way of reinforcing political ties in the Western world. 'The results of the Kennedy Round are of far greater magnitude than those obtained in any previous trade negotiations'. It has been estimated that trade in the industrial products on which tariff-cutting concessions have been agreed amounted to some \$ 40,000 million. Agreements of outstanding importance have been reached on chemicals and steel, two of the

most controversial issues in the protracted Kennedy Round negotiations. The negotiations were the most ambitious attempt ever made to achieve the liberalisation of international trade.

STANDARD OF LIFE IN DEVELOPING COUNTRIES

THE FOLLOWING table gives a bird's eye view of the fundamental difference in present and prospective standards of life as between the developed and developing nations:

TABLE 6

GROSS DOMESTIC PRODUCT AND INDUSTRIAL AND AGRICULTURAL OUTPUT BY AREAS

(Percentage change from preceding year)

World	*Gross Domestic product*		*Industrial output*		*Agricultural Outturn*		*Food Output*	
	Total	*Per capita*	*Total*	*Per capita*	*Total*	*Per capita*	*Total*	*Per capita*
1961	4	2	6	4	2	...	2	...
1962	5	3	8	6	4	2	3	...
1963	4	2	6	4	3	1	2	...
1964	5	3	7	5	2	...	2	...
1965	5	3	7	5	2	...	2	...
Industrial countries								
1961	4	3	4	3	2	1	2	1
1962	5	4	7	6	5	4	4	3
1963	5	3	5	4	3	2	2	1
1964	6	5	7	6	2	1	2	1
1965	5	4	7	6	2	1	2	1
Developing countries								
1961	5	3	9	7	3	1	3	1
1962	4	2	7	5	2	...	1	−1
1963	4	2	6	4	2	...	1	−1
1964	5	3	7	4	3	1	2	...
1965	4	2	7	5	2	...	1	−1

It is obvious from these figures that while the developing countries are making small progress in Gross National Product, industrial and agricultural production, the *per capita* figures tend to dwindle down on account of 'exploding' population. It is for this reason that family planning schemes have been taken up on a nation-wide scale in several developing countries including India.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The International Bank for Reconstruction and Development, more commonly known as the World Bank, is almost universally regarded as one of the most creative international institutions ever deviced. But as the October 1967 meeting of the Bank together with the sister institution, the International Monetary Fund, revealed, the Bank is going through a time of difficulty. This problem, in a pharse, is raising money. The Bank's loans both hard and soft go overwhelmingly to the poor countries and they are now running to $1 billion a year. The loans have done a great deal to these countries. 'Something new is happening in today's world'. In contrast with the past 15 years, when 'the lot of human beings had fluctuated only between varying degrees of poverty' economic growth in the poor countries embracing not less than half the mankind has been rapid as in the industrial countries. It is time that we begin to say to the paying public and the legislatures of industrial countries that the Development effort they are making and will be asked to support can be successful, and has been successful in some important sections of the world. The problem now is that the 'absortive capacity' of the poor countries for outside capital has grown while the total flow of foreign aid has stagnated for 6 years. Although some of the European nations, such as Sweden, Denmark and the Netherlands, have gradually increased their aid effort, the flow from the big—the United States, Britain, West Germany and France—is no higher than what it was at the beginning of the decade. The Bank should be happy to motor for a new expansion of total flow of aid. But its problem is two fold. First, it raises money for its 'hard' or bankable loans by selling its own bonds on New York or other major Capital Markets. But interest rates have risen so high as to make these bond issues more and more difficult, at least without an increase in the Bank's own interest charges that it is most reluctant to impose, especially at a time when interest and principal payments on the past debt already chew up two-fifths of the annual net flow of aid to the poor countries taken as a group. Second, the Bank's 'soft' loan subsidiary, called 'the International Development Association', is out of money and the rich countries have been unable for more than a year to agree on a plan of replenishment. The I.D.A. is probably the key to the future flow of foreign aid. Contributions must be quadrupled to $1 billion a year from $250 million a year. Such an increase would provide a new upward thrust. But this quadrupling will not happen. Britain has proposed doubling, the Chancellor of the Exchaquer James Callaghan said in Rio de Janeiro that 'we ought to be able to agree on that and soon'. The United States has proposed $600 million in the first year, $800 million in the second year and $1 billion in the third year. The Netherlands has proposed the idea of an ascending scale of the contributions. But the United States has also demanded a complicated special formula that would enable it to delay part of its contributions in case it continues to have a deficit in its Balance of Payments, and if it does not get a fair share in the procurement resulting from I.D.A. loans. The I.D.A. is in a crucial position because it is the agency best equipped to cope

with a problem that is widely emphasised—the growing debt burden of the poor. I.D.A. lends with no interest and 50 years to pay, and its loans go to the poorest of countries. The largest recipient so far is India. There was no replenishment of I.D.A. funds in the October 1967 meeting. But it was clear that at least the European Countries and other rich countries are giving their attention to the problem. There is now a fair degree of confidence that the rich countries will be able to agree on a formula though only Britain and the United States have made concrete pledges so far.

Table 7 shows that political pressure exerted more influence on the sanction and disbursement of these loans than criteria of productivity, incidence of population or consumer needs.

TABLE 7

Summary Statement of Loans to certain countries upto end of June 30, 1966, by I.B.R.D.*

(in U.S. dollars)

Members in whose territories loans have been made	*Effective loans held by Bank*			*Loans not yet effective*
	Disbursed portion	*Undisbursed portion*	*Total*	
Argentina ...	105,649,916	13,785,084	119,435,00	...
Australia ...	193,733,846	554,993	194,288,839	...
Brazil ...	164,385,608	78,484,809	242,870,417	49,000,000
Chile ...	73,109,906	32,945,963	106,055,869	
Columbia ...	233,322,814	75,676,186	308,999,000	41,700,000
India ...	531,177,393	162,534,641	693,712,034	
Iran ...	102,839,589	58,958,411	161,798,000	
Italy ...	120,805,521	85,608,144	206,413,665	
Japan ...	452,628,330	198,201 294	650,829,624	
Mexico ...	344,503 871	158,452,255	502,956,126	19,000,000
Malaysia ...	51,369,665	81,727,335	133,097,000	
Nigeria ...	46,343,995	105,390,999	152,734,994	
Pakistan ...	154,151,135	157,690,539	311,841,674	
Peru ...	87,299,645	56,050,054	143,349,699	9,100,000
Spain ...	22,576,726	112,589,686	135,166,412	
Thailand ...	101,865,182	50,032,513	151,897,695	36,000,000
United Kingdom ...	104,812,788	17,360,281	122,173,069	
Venezuela ...	77,905,953	142,171,047	220,077,000	
Yugoslavia ...	155,427,752	78,165,986	233,593,738	
Totals of 60 territories	4,228,100,020	2,085,273,212	6,313,373,232	231,400,000
Less: Exchange adjustments ...	14,290,250		14,290,250	
	4,213,809,770		6,299,082,982	

* On March 31, 1967, India owed to the World Bank U.S. $1000.3 million, to the I.D.A. U.S. $889.3 million and to the I.F.C. U.S. $9.6 million, making a total of U.S. $1,899.2 million.

I.D.A. EXPANSION PROPOSAL

THE UNITED STATES has offered to increase its contribution to the International Development Association (the soft loan window of the World Bank) substantially, but it has attached an important new condition. This condition is that at least some of the loans made out of the $ 960 million that the U.S. is willing to contribute over the next 3 years should be spent by those who get aid from the I.D.A. to buy goods from the United States. Thus countries like India and Pakistan which are the biggest borrowers of I.D.A. funds would be required to spend a stipulated part of the loans they receive from the World Bank Subsidiary in the donor countries. The U.S. proposal would more than treble the funds of the I.D.A. which in the last 3 years had no more than $750 million at its disposal. As the U.S. offer is to be matched by other rich members of the Bank with $ 1.44 billion (or 60 per cent of the total), the I.D.A. would have $ 2.4 billion at its disposal if the U.S. proposal went through. This is only about $ 600 million less than what the World Bank President had suggested should be available to the I.D.A.—$ 3 billion over a three year period.

The U.S. proposal tying its contribution to purchases in the United States has been in the air for sometime. The World Bank has been resisting the departure from past practice as it would make even multilateral aid less flexible. Until now only bilateral aid was subject to purchases within the donor-countries. The U.S. proposal springs from its desire to ease its balance of payments situation. The U.S. complaint has been that because U.S. prices have been higher, some of the countries which get loans from the I.D.A. spend only a small part of it to buy goods in the U.S.A. Substantial part of the loans (40 per cent of which would be of U.S. origin) went to increase the earnings of the other donors from which the loan receivers preferred to buy their goods. The U.S. offer is still in the shape of a proposal. The other rich members of the World Bank have yet to agree to the quantum of contributions suggested as well as the terms. The World Bank too apparently has not accepted the proposal yet. But the U.S. proposal comes at a time when I.D.A. resources have run down to virtually nothing. With only $ 15 million left in the kitty, the I.D.A. cannot make any more loans until its funds are replenished.

INTERNATIONAL MONETARY FUND OPERATIONS IN 1966

DRAWINGS OUTSTANDING from the 105 nation International Monetary Fund reached a record $ 5,047 million near the end of this year. They were $ 4,354 million at the end of 1965 and $ 2,621 million a year earlier. The most recent figure chiefly reflects a $ 500 million increase in the outstanding drawings of U.S. and smaller increases with respect to some of the funds drawn by Asian and African members. Latin American countries as a group have reduced their payments obligations to the Fund over the past two years.

Also during 1966, The Fund's 20th year—Singapore and Guyana were admitted to membership. The Funds capitalisation was enlarged from $ 16 billion to

$ 20.6 billion in gold and currencies through a general increase in members quotas. Its proposal to borrow $ 6 billion from ten industrial countries, were extended for a four-year period beginning from October 24, 1966. The Executive Directors of the Fund conferred with the Deputies of the ten participants in the GATT regarding the advisability and possible means for further expanding international liquidity. The Fund adopted a liberalization of its 'compensatory financing' policy which applies mainly to the use of its resources by countries relying on exports of primary commodities for foreign exchange earnings.

The $ 1,377 million drawings on the Fund in the first eleven months marked one of the more active periods of its financial operations. Thirty-two members drew on the Fund's currency holdings in the interval between January 1 and November 30, when repayments amounted to $ 463 million.

Fund operations reached their highest total for a calendar year with the $ 2,478 million in new drawings during 1961, and neared that level again with $ 2,433 million in 1965. Altogether 62 countries have obtained $ 12,840 million in short-to-medium term assistance from the Fund to help them deal with their temporary balance of payments problems.

At the beginning of the year, the outstanding drawing of the U.S. amounted to $ 385 million. Subsequent transactions including a purchase of $ 250 million in Italian lire and additional purchases of Canadian dollars, lifted net drawings by the U.S. to $ 886 million by November 30. Outstanding drawings of Asian members rose during the period from $ 482 million to $ 591 million, and those of African members from $ 213 million to $ 259 million. The net drawings of Latin American countries, which declined from $ 643 million to $ 620 million last year, were lowered to 581 million by the end of the year.

Members' drawings of European currencies this year were $ 1 million less than in 1965, and were also less in proportion to drawings of other monetary units. The fund provided $ 1,709 million in European currencies in its foreign exchange operations last year, and $ 665 million after January 1. Thus, Continental European currencies were used at 69 per cent of total operations in 1965 and 48 per cent in 1966. This year, up to November 30, the Fund has sold Austrian schillings ($ 5 million), Belgian francs ($ 38.2 million), deutsche mark ($ 205.5 million), French francs ($ 74.4 million), Italian lire ($ 307.8 million), Netherlands guilders ($ 29.3 million) and Swedish kronor ($ 5 million). Other currencies sold were Australian dollars ($ 10 million), Canadian dollars ($ 455.7 million), Mexican pesos ($ 9 million), pounds sterling ($ 71.9 million) and U.S. dollars ($ 148 million).

Twenty-four members maintained Stand-by arrangements with the Fund at the end of November, of which the undrawn balances were equivalent to $ 372 million. The General increase in Fund quotas which went into effect this year provided for a 25 per cent increase in the quotas of all members wishing to participate, and selectively higher in increases for 16 of them. Ninety members consented to such increases. A previous general quota increase of 50 per cent went into effect in 1959 and brought total quotas to $ 14 billion at that time. In

1962, the Fund moved to supplement its resources with the general arrangements to borrow. They have been used to the extent of $ 405 million in 1964 and $ 525 million in 1965 in connection with two drawings by the United Kingdom totalling $ 2.4 billion.

Since 1963, the executive directors of the Fund have given much attention to questions of international liquidity and the developing role of the fund, and deputies of the ten countries, participating in the GATT have pursued parallel studies. On November 21 and 22, they conferred informally in joint sessions at the Fund headquarters on the need for augmenting reserves, the aims of reserve creation and the possible rules of distribution of additional reserves. Another joint meeting was scheduled for January 25 and 26 in London, and further discussions were in prospect before the Governors of the Fund held their next Annual Meeting, beginning September 25, 1967, in Rio de Janeiro.

The International Monetary Fund chided the United State recently for its failure to end the dollar drain and for what the Fund called a delay last year in cooling an overheated economy. The IMF noted an increase in Government grants and loans to underdeveloped countries last year, but said private capital exports slowed down considerably. It urged industrial countries in the future to make greater use of increased taxes and spending cuts to ensure better balanced economic policy. In its annual report for the year which ended last April 30, the 106 nation Fund also hailed Britain's economic austerity programme, noted the drop in official gold reserves and urged industrial nations to achieve early resumption of economic growth.

But it said, spending by nations should be kept within their capacity to produce; in other words, growth without inflation. The Fund said, major examples of the delay in applying the economic brakes last year came in the U.S. and Canada. U.S. officials have repeatedly contended publicly that their policies last year were correct. The Fund made no mention in its report of President Johnson's proposed 10 per cent surcharge on individual and corporate income taxes, which programme, officials say, will stem inflation and permit steady economic growth. Many economists last year called for a tax increase and spending cuts to cool the U.S. economy.

LATEST O.E.C.D. DEVELOPMENT AID TO DEVELOPING COUNTRIES

Total technical and financial aid given by members of the Organisation for Economic Co-operation and Development to the developing world rose by $ 1,000 m. to $ 10,149 m. between 1964 and 1965, while over half this increase was accounted for by private capital, according to the latest annual review of the O.E.C.D. Development Aid Committee. This was the largest increase in development aid since 1961 and exceeded the total expansion of national income in the donor countries last year. When the contributions of non-committee members are included, the total aid flow to the developing world in 1956 reached $ 10,966 m. Moreover, the large amount of aid still in the pipeline and the resumption of assistance to certain countries suggest that 1966 will witness a further increase in total

disbursements and official bilateral and multilateral programmes. But the Development Aid Committee warns that there are still no grounds for complacency. A decline in aid during 1964 artificially inflated the 1965 figure, which was in any case lower in relation to national income than those achieved in earlier years. Furthermore, the flow of private capital—which accounted for half of last year's increase—is subject to wide fluctuations. The tightening of world capital markets led to payment troubles among the major donors and cast a shadow over the immediate future. Nor does the longer term outlook seem particularly encouraging. A sharp drop in new bilateral commitments in 1965 and the multilateral agencies' need to replenish their funds are potentially limiting factors. Although some countries intend to raise their official assistance programmes, some of the major capital exporters now seem much less optimistic about the likelihood of expanding above present levels.

THE ASIAN DEVELOPMENT BANK: FIRST YEAR OPERATION'S SCOPE

The President of the Asian Development Bank, Mr Takeshi Watanabe, said that loans for projects to support agricultural development, like new fertilizer plants and irrigation works, will probably receive the first attention of the Asian Development Bank as soon as it is organised for loan operations about the middle of 1967. The Bank would have about \$ 60 million to \$ 70 million for loaning purposes in the first year of its operations. Since this was not a large amount, and it has to be distributed among several countries of the region, no single loan was likely to be a big loan such as the ones that the World Bank normally makes. The A.D.B. is intended to supplement, with its medium and small loans, what is now being done for the region by other institutions for development financing. In the coming months, India has offered its assistance to the Bank in evolving its loan policies. The President of A.D.B. was reluctant to commit himself on how soon the Bank would make its first loan. This depended on the recruitment of an adequate staff for the operations side of the Bank to process applications for loans. To begin with, he envisaged loans from the Banks subscribed capital. These may have to be 'Regular' loans, or hard loans more or less. The other two sources of loanable funds for the Bank were a special fund to which nations like the United States were expected to contribute, in addition to their subscription to the Bank's capital, and bond issues by the Bank in International money markets. Mr Watanabe was hopeful about the special fund. President Johnson had indicated that the U.S. might channel \$ 200 million of development funds through the A.D.B. This may come to the Special Fund, and Mr Watanabe hoped that Russia would also contribute to it even if it could not find a way of joining the Bank as member.

As regards raising money for the A.D.B. in the World's capital markets, Mr Watanabe seemed to feel that it was slightly premature to think of it now. Conditions were tight in the world's capital markets, including that of Japan which was the one prominent market in Asia for bond issue. The first thing was for the A.D.B. to establish, through its operations, its creditworthiness in the world markets.

So far, $ 965 million had been pledged as subscription to the capital of the bank by the participating countries of the region (19) and those outside (12). Half this amount would be paid up in the first instance, in five instalments. Of this sum, half would be payable in local currencies, a number of which are not convertible, and the other half in gold or dollars. Taking all this into consideration, the total value of currencies available for loaning would be about $ 65 million to $ 70 million in the first year. The second instalment of the subscription was payable in September 1967. Speaking about the A.D.B. as an instrument of Asian economic co-operation, Mr Watanabe observed that it would certainly endeavour to lay the ground for such co-operation, which included furthering the object of a common market for the region.

ASIA MAY HAVE A FREE ENTERPRISE "WORLD BANK"

A FREE-ENTERPRISE version of the World Bank's International Development Association—with mainly private interests at the giving as well as receiving end of the capital line—has proved so successful in Latin America that it may be extended to Asia and elsewhere. The organisation concerned is ADELA, originally standing, on its formation in January 1964, for Atlantic Community Development Group for Latin America. The group now chiefly manifests itself through a Luxembourg registered bank, Adela Investment Company S.A. with subsidiaries in Panama and Lima (Peru). A number of circumstances govern both the formation of the company and the choice of Latin America as the first area in which attempts would be made to mobilise private capital on a large scale. First, it was argued, there was the general swing of recent years from Government and world-institutional aid to insistence on more self-help in the developing countries. For many needy countries seeking to expand production or start new industries, this left an awkward transitional period when public capital might diminish and private capital not yet forthcoming in sufficient volume. Secondly, it was believed by the promoters that an unduly pessimistic view was often taken about the scope for gearing up private capital and obtaining a good return on it in developing countries. The answer to this objection appears to be an international organisation which would mobilise capital and, coupled with appropriate mechanisms for approving projects and providing them with central technical and management services, allocate it expediently. It is significant in this context that in the year after its formation Adela set up a subsidiary Management and Technical Services Company (ADELA-TECH).

The choice of Latin America was arrived at against the background of uncertain success of the long-standing American Alliance for Progress in aid schemes: waves of inflation and devaluation; and sagging world commodity markets, on which most republics depended for export earnings. But there was also greater promise than hitherto in the shape of more political stability and wider inter-republican economic co-operation through the Latin American Free Trade Area and Central American Common Market. Adela indeed sprang out of American

efforts to promote a higher rate of private investment in Latin America in the face of recently growing Washington reserve about straight financial aid there or for that matter in any developing area. Proposals to establish Adela were initially put forward to NATO parliamentarians at Paris meetings by American Senator Jacob Javits—a reflection of attempts to give NATO an economic aspect—and were subsequently blessed by OECD, the Organisation of American States and the Inter American Development Bank. Now, however, the group has achieved an essentially private-enterprise character—in line with its original objects: the total of 143 shareholders from 16 nations include such names as General Motors, Coca Cola and IBM, Dunlop and ICI, Belgium's Petrofina, Deutsche Bank, Fiat from Italy and Mitsubishia Bank in Japan. The shareholders now represent an equity of more than 34 million dollars, assets estimated at about 200 million dollars and capital commitments totalling 350 million dollars for 61 projects in Latin America in less than 3 years. These projects have included petrochemicals in Argentina, cold storage, timber, paper and textiles in Brazil, machine tools and building board in Mexico. Now Adela's 10 Japanese shareholders—commanding about one million dollars of the equity—believe that the Adela formula can be made to work in Asia and are considering promoting a similar enterprise there.

JAPANS GROWING LEADERSHIP IN SOUTH EAST ASIA

JAPAN IS re-inforcing its bid for economic leadership in South-east Asia by sending three Ministers on trips through the area and despatching a fourth to the Indian sub-continent. The Foreign Minister was the first to leave Tokyo when he began a 10 day tour of Thailand, Malaysia, Singapore and Indonesia recently. The three other Ministers were expected to make their visits later. Final schedules were yet to be decided, but it was expected that the Minister of Agriculture, would leave early for Thailand, Burma, Taiwan, Laos and the Philippines. Two other senior Ministers of International Trade and Industry, and Minister of Welfare, left Tokyo at the middle and end of November respectively. The International Trade and Industry Minister went to Cambodia and South Vietnam and Welfare Minister to Pakistan, India, Nepal and Ceylon. Thus the entire South-east Asian and Indian regions were covered by ministerial envoys in the short space of six weeks. The only country to which more than one Minister went was Thailand. One reason for this was that there was a scheme for exporting maize from Thailand to Japan in which the Agriculture Minister had a special interest: the purpose of the scheme was to help rectify the balance of trade which was heavily in Japan's favour. The Japanese Foreign Minister has apparently been active in persuading his colleagues to spread the load of visiting all these countries. At one time the Prime Minister was considering a South-East Asian tour, but for various reasons, partly because of several nasty political scandals at home—he decided to stay in Japan. Hence it became necessary to draw on other Ministers. The Ministerial tours were a follow-up to the conference of South-East Asian nations held in April 1966 in Tokyo. This conference, which was primarily concerned with economic

development, was well attended. Only Burma was totally absent, while Cambodia and Indonesia sent observers. The momentum of this new Japanese effort is not being maintained by diplomatic channels alone. There would have been limited interest in the Tokyo conference if it had not been understood before-hand that there would be hand outs in the form of aid. But at these early stages diplomacy will play a very important part. Plans were laid for an agricultural conference later in Tokyo to be attended by South-East Asian nations.

Chapter VII

PLAN PROBLEMS

RESEARCH IN SOCIAL SCIENCES

Research in the Social sciences like economics and sociology does not normally make news, but two recent events drew attention quietly in the spirit of research itself, to the need to assess what has been done in this field in the past few years and organise it for the future. A committee on social science research, appointed by the Planning Commission in August 1965, gave an interim report some time ago and the National Council of Applied Economic Research took stock of the first ten years of its work.

The committee on social science research has recommended the establishment as early as possible of a Social Science Research Council, as a registered society. It would provide financial support to institutions engaged in social science research in the country that are not eligible for financial assistance from the University Grants Commission, and technical guidance and services for developing facilities for research in universities, colleges research institutes and research organisations set up by Government.

The details of the Council's constitution and its relationship with the U.G.C. would be spelt out in the Committee's final report, but meanwhile it has urged the appointment of a Social Scientist of established reputation as Officer on Special duty, 'to take in hand the setting up of the nucleus units'. It is important that the person should really conform to the qualifications laid down since too often in the past, the direction of social science research had fallen to persons who had themselves little significant research to show. The Council is obviously conceived as a body complementary to the U.G.C., for it is to be under the Union Education Ministry. An initial provision of Rs 50 Lakhs from the Education budget is recommended for 1967-68. This will come eventually out of the Rs 4 crores the draft outline of the Fourth Plan has provided for implementing the recommendations of the Committee on Social Research.

The Committee elicited the views of a large number of associations and social workers in the fields of economics, commerce, labour and agricultural economics, statistics, sociology, social work and political science. Its recommendation is thus based on the broadest measure of field support and should be acceptable to Government in the normal course. However, it raises the question as to whether the monetary effort of the new organisation, should add to the considerable sums already being spent by the Planning Commission and various Ministeries of the Government of India on research (or what passes for it) or whether a good part of the latter cannot either be weeded out or rationalised to save scarce funds and make the total research effort more purposeful.

The draft Fourth Plan provides Rs 1 crore separately for the Planning Commission's existing Research Programmes Committee. When the Social Science Research Council is established, the research that the R.P.C. sponsors, can be looked after by the Council, and the R.P.C. wound up. The subjects in which the R.P.C. will sponsor research in the Fourth Plan are all suited to be placed by the proposed Council with different institutions—transport development, resource mobilisation, industrial location, wage productivity relationships, labour market surveys, pattern of leadership in rural areas, small farmers, social tension and conflict, and tribal welfare. To the extent that the Planning Commission hopes to use the research done in these fields, it should benefit by the talent of the whole country. The R.P.C. even now tries to distribute its research assignments widely, but the S.S.R.C. will be in a better position to accomplish this objective.

It is possible that the Planning Commission has some long-range research to be done that bears directly on the formulation of five-year plans, besides stimulating general social science research. This could be left to such bodies as the National Council of Applied Economic Research, which the Commission is in fact already using for the purpose. Its current research on short-term problems bearing on the five-year plans and the annual plans, can be looked after by the two research establishments which it has within itself, in its Economic Division and Perspective Planning Division.

The Committee on Social Science Research was concerned with promoting and organising research in non-Governmental or semi-Governmental organisations. But somebody should look in to the research establishments in the various Ministries of the Government of India, besides those of the Planning Commission and the Reserve Bank of India. Since Independence, there has been a proliferation of economic research within the Government, under a number of economic advisers. Whether or not their output can be properly described as 'research', well-staffed departments exist for the purpose in the Union Ministries of Finance, Industry, Commerce, Agriculture, Labour and Railways. They have the usual complement of deputy or assistant economic advisers and senior and junior research officers and investigators. The Finance Ministry has two Economic Advisers, one of whom is Chief.

It is not clear whether or to what extent, the Chief Economic Adviser advises the other economic advisers and co-ordinates the total economic advice of the Government, just as to some extent the Chief Economic Adviser of the British Government does. The recommendations of the Committee on Social Science Research should be in the hands of social scientists. Some of the present Economic and social research workers even at the higher levels, have no established research to their credit. But they might well argue that it really does not matter, since they are seldom called upon to undertake original investigation. Most of the work they do is more in the nature of 'reference' than research in the strict sense. True to the spirit of Parkinson's Law, many posts have been created to suit persons, and work has been created for them because they are there. Some of them are engaged on

duties of a departmental nature for which a research staff as such is not called for, such as preparing drafts of Ministers' speeches and other pronouncements, attending International conferences, preparing departmental notes for parliamentary committees, or simply making a digest of other people's research. The Reserve Bank does much basic research relating to the economy and so does the Central Statistical Organisation—another big outfit under the Cabinet Secretariat. Their output is (or ought to be) readily available to the Government. On subjects like taxation, the two Central Boards for Direct Taxes and Customs and Excise have a vast volume of intelligence which is available to the Government directly. A good part of the research establishments within the Government only sieves or processes data.

Even so, interpretations of the data could be useful, but the research establishments being an integral part of the Government machine, there are obvious limits to their freedom of interpretation. It is in fact doubtful if the economic advisers and their senior staff have the time, amidst their routine pre-occupations, even to keep abreast of the latest International literature in their respective fields. Nothing decays like the expert mind unless it is continually exposed to the latest knowledge rather than to meaningless and inconsequential files. There seem to exist serious gaps in Government's economic intelligence about Soviet Bloc countries and Japan for example. As in the case of long-range research, the Government can benefit by drawing on the talent of Governmental economic bodies over short-term questions also, on which the staffs of these bodies may sometimes be more up to date than the Government's research departments. Considering the fact that the combined economic staff of the Government, the Planning Commission and the Reserve Bank of India accounts for a tidy sum of public money for its maintenance, an economising on this research effort is worth while.

Not to be left behind, business associations, and even individual business houses, have recently been organising economic research. The Federation of Indian Chambers of Commerce and Industry at New Delhi and the Indian Merchants Chamber at Bombay have Research Foundations attached to them. Other similar bodies do what they believe to be research in a small way. It is understandable that these are concerned mainly with problems of taxation. If research is motivated, whether it comes from Government or private industry, its credentials to be recognised as 'research' are bound to be affected. Sometimes the temptation is too strong to adjust research to support a particular line of thinking. The thinking may have its merits, but unless other aspects of the problem in question are also brought out, judgements based on motivated research would be incomplete.

To all such efforts, the President of the National Council of Applied Economic research, gave sound advice on the occasion of the Council's tenth anniversary recently when it took stock of its research effort. He said: 'But Governments have little time and, perhaps, no staff to spare for long-range research. They are pre-occupied with current problems and with measures of immediate action. It is specialised institutions with an independent status that can effectively contribute

to an objective understanding and appraisal of public problems; and in the conditions of Indian industrial development, even the private sector needs such help. Few business houses possess a research consciousness, much less research facilities of their own; and even where they have, the objective approach of an independent research organisation would help in giving them greater confidence in their own methods and conclusions'.

Entrusting research to bodies like the NCAER is not the end of the argument. The fact that the body doing the research and the party commissioning it are separate does not automatically make the result objective. It is not enough if others feel that such bodies are independent. The bodies should themselves feel they are. The danger is not of bias but of inhibition. When they undertake sponsored research and are conscious that their active existence depends upon their research custom, theoretically at least, there is a possibility that these bodies may prefer to keep a part of their counsel to themselves. The subjects they handle are also close to current policy and arouse strong passions for their potential gains and losses.

There are several ways in which this danger can be obviated. One of them is for the research institutions to maintain always a fair proportion of research projects initiated on their own. Another is to take up sponsorship from a wide range of interest, like the Central and State Governments, public sector organisations and private firms, so that there is constantly in the research body a comprehensive frame of viewpoints which sustains objectivity. The NCAER has had the advantage of such diversity in its activities as well as certain basic enquiries undertaken on its own. Above all, objectivity is fortified if confidence is not reposed in the research body by giving prompt and due weight to its findings even when they go against preconceived notions.

PLANNING AND SCIENTIFIC RESEARCH

THE DRAFT Outline of the Fourth Plan indicates no national plan for science and technology, though a study group had strongly recommended the formulation of such a plan. Research planning at the national level should concern itself with programmes and evaluation of results in a given period. In a country where resources are scarce, such programmes cannot be left to the whims and fancies of individuals. Not only research scientists and civil servants but also specialists in industry and agriculture and those directly enjoying the benefits of research should be associated with the evolution of such programmes. The primary purpose of planning should be to avoid duplication and ensure co-ordination at the national level.

Another deficiency relates to the way in which monetary outlays have been presented. The Planning Commission figures tell an incomplete story. It details the expenditure during the last three Plans and the estimates for the Fourth Plan, but makes no attempt to link them with the research rupee. Thus, in real terms, the amount of research conducted may not be the same as would be possible

with Rs 140 crores provided for the Fourth Plan. To put it differently, although it appears that the research outlay will be increased substantially from Rs 230 crores incurred during the 15 year period (1951-66) to Rs 270 crores during the five year period (1966-71), the estimates are not truly comparable because of rising costs.

It is rightly emphasised that applied research has not made an adequate contribution to economic growth so far, and that we remain weak in design and development and much too dependent on foreign know-how. Even so, there is no need to import foreign technology in spheres where Indians have mastered the techniques. For instance, at a time when nearly 1,100 members of the Planning and Development Division of the Fertiliser Corporation of India are clamouring for design and engineering orders, there is no reason why foreign firms should be awarded turnkey contracts for fertiliser plants. It is therefore necessary that the Government should set up a central organisation for co-ordinating design work in diverse industrial fields.

The Commission is also right in suggesting that there should be multilateral traffic of personnel between research laboratories, educational institutions and industrial establishments. But it does not say how this intercourse can be encouraged. As a start, the AEC, the CSIR, and the ICAR could nominate scientists for deputation to universities, institutes of technology and industrial organisations. This brings us to another serious omission in the Draft Outline. There is no mention of research programmes in agriculture, defence, communications and medicine. These areas are as vital as industrial or nuclear research, for which separate outlays are given. The total expenditure on programmes in these fields has been estimated at Rs 160 crores during the Fourth Plan, but no figure for the first three plans is given, for purposes of comparison. It is true that defence research cannot be discussed publicly, nor its total outlay disclosed. But there is no reason why we should refrain from discussing research programmes in agriculture, communications and medicine. It is to be hoped that all these lacunae will be filled in the final version of the Plan so that a direct link may be forged between industrial growth and scientific research.

CLASH ON STATISTICAL STUDIES

INTERMINGLING OF functions between the Planning Division of the Indian Statistical Institute and the Planning Commission has been criticised by a Committee appointed by the Government to evaluate the work of the Institute. The committee appointed in February, 1966 under the Chairmanship of Prof. Humayun Kabir, feels that such intermingling makes it difficult for the Division to make an independent evaluation of the work of the Planning Commission or of the plans formulated by it. It has recommended that the Planning Division should function entirely outside the Government but maintain close liaison without any organisational or personal link-up. The Division should also be reorganised into a Department of Economic Planning and Social Sciences to carry out training, research and appraisal

in the field of planning. It should organise courses for the personnel engaged in planning at various levels.

The committee describes as a 'serious defect' the lack of clarity in the Planning Division's relationship with the Government and says that since the Institute is an independent academic body, its Planning Division should also be independent of the Government. Its work is, however, closely integrated with the work of the Planning Commission which is purely a Government organisation. Prof. P. C. Mahalanobis, Secretary of the Institute, is a member of the Planning Commission. The Head of the Perspective Planning Division of the Planning Commission is a Joint Secretary in the Institute.

The report added: 'thus, there is inter-mixture of both functions and persons between the Government and the Institute. It is difficult for the Planning Division, as at present constituted, to make an independent evaluation of the work of the Planning Commission or of the plans formulated by it. It has also been represented to the committee that many of the publications of the division are not related to the urgent problems of the country'. The Committee has found fault with the Institute for delays in the processing and publication of vital data by the National Sample Survey conducted by it. According to the Committee, delay in the processing of data is not the only criticism of the National Sample Survey work. The Committee says there has been no clear concept regarding the aims and objects of the National Sample Survey work. The conflict between administrative statistics and National Sample Survey statistics has not been resolved.

OVERLAPPING IN PLAN DATA COLLECTION

THE PLANNING Commission has rejected a proposal for a common servicing unit to collect and process development data for both the commission and the Central Ministries to avoid duplication of effort. The proposal was made by Mr H. C. Mathur, member of the Administrative Reforms Commission, in his note on economy in administration submitted recently to the Prime Minister. He had pointed out that on several occasions, the same kind of information was collected and processed by the Ministries and the Planning Commission, resulting in duplication of work and increased expenditure on the staff. He had estimated that an annual saving of Rs 15 lakhs could be achieved by the Commission alone if a common services unit was set up. The Commission holds that there is no duplication involved in the present arrangements. 'While the Planning Commission utilises the ministries for getting all its basic data, it naturally needs a staff in different units to process the data relating to different sectors for the Planning Commission from the overall planning angle'. The question of avoiding duplication was discussed some time back by the Commission with the Central Ministries, and a broad understanding was reached. It was agreed that it should be left to the ministries concerned to undertake direct studies relating to problems in their sectors and to see to the actual implementation of the recommendations in the Plan. The activities of the commission should be confined to watching the progress of the

development projects within the broad framework laid down by it. If specific information was required by the commission on any aspect of the programme falling within the purview of the ministry, it should refer to that ministry. Direct study by the Commission should be undertaken which had a direct bearing on overall planning in the country or a region as a whole. It was also agreed that the advisers and officers of the commission, when visiting States, should refrain from giving advice on technical matters which might run counter to the views of the ministry concerned.

SKYSCRAPER PLANS ON STATISTICAL SAND DUNES

DURING THE last quarter of a century and more, numerous organisations were built up with a view to improve and rationalise various kinds of statistics, among which may be mentioned The Indian Statistical Institute, The National Sample Surveys, The Central Statistical Organisation, The Indian Council of Agricultural Research, The Council of Scientific and Industrial Research and several research Laboratories under its auspices, The Institute of Economic Growth, The National Council of Applied Economic Research, The Research Programmes Committee of the Planning Commission, the Reserve Bank of India Departments of Agricultural Credit and Statistics, the Annual Survey of Industries, Post Graduate Schools of Economics at Delhi and Bombay and State Departments of Statistics. Wherever practicable as in organised industry and urban centres, the census method was adopted for collecting basic data: in extensive areas covered by agriculture, cottage industries and rural life in general, the sample method was adopted. Regulated Markets for Agricultural products provided more accurate data than before with regard to prices of principal crops, on the basis of grading wherever possible village reports with regard to crop condition were supplemented here and thereby crop-cutting experiments. Of late, district statistical staff were appointed with a view to check and verify village statistics dealing with rainfall, crops, human and cattle diseases, etc.

But all this progress has been very rudimentary, and cases have not been infrequent in which data published by different institutions and Ministries proved contrary if not contradictory. Obviously, such inconsistencies must have been due to varying coverage and faulty recording. In fact, grading, sampling and quality control are, with the exception of a few standardised products, are so nebulous that little better could be expected than available statistics which help the researcher very little.

The causes for such incompleteness and unreliability of data are not far to seek. Statisticians from all over the world were invited to India from time to time and Seminars have been in plenty, but little attention appears to have been paid to the task of making sure of basic items and weightages, and the more important task of enforcing uniformity of procedure adopted by different organisations. A typical example should suffice to drive home the point. The base year for official statistics for the index of wholesale prices in India is 1952-53. But the base

year adopted by a leading Indian Economic Journal is 1959-60. The compilers of data in the two cases know little about the items, extent of coverage and weightages adopted by the other, and it is no surprise that conclusions based on the two sets of indices proved glaringly apart. The following table shows how the Economic Journal data adjusted to 1952-53 base results in the substantial difference of plus 23.9 points in the case of all commodities, plus 35.5 points in the case of food articles, plus 72.7 points in the case of rice, plus 29.6 points in the case of manufactures and minus 13.2 points in the case of industrial raw materials. Naturally the wonder is if the student is any the wiser on account of such widely conflicting data.

TABLE 8

INDEX OF WHOLESALE PRICES: OFFICIAL AND OF A LEADING ECONOMIC JOURNAL

Item	*Official index*		*Economic Journal Index*			*Economic Journal index adjusted to official index*	*Variation in points between official index and Economic Journal Index*
	1952–53	*1959–60*	*31st Dec. 66*	*1959–60*	*7–1–67*		
All commodities	100	118.7	195.3	100	184.6	219.2	+23.9
Food articles ...	100	116.5	205.6	100	206.9	241.1	+35.5
Rice ...	100	105.0	173.0	100	234.0	245.7	+72.7
Industrial raw materials ...	100	132.0	232.3	100	165.9	219.1	−13.2
Manufactures ...	100	117.0	165.6	100	166.8	195.1	+29.6

To get a panoramic view of the general economic condition of the country, it would be necessary to have data dealing with different aspects of natural phenomena and human activities side by side, but in India, the base years continue to be different, even after 20 years of Independence, and the result is that it is impossible to make any comparison or hazard any opinion with regard to any aspect of Planning. The following information does comprise perhaps the weakest link in Indian Planning:

Item		*Base year*
1. National Income	...	1948-49 shifted to 1960-61 and then to 1964-65 for purposes of the Fourth Plan.
2. Wholesale prices	...	1952-53
3. Working class cost of living	...	1944 shifted to 1949 and to 1950 and again to 1960.
4. Agricultural production	...	1949-50.
5. Industrial production	...	1951 shifted to 1956.
6. Industrial profits	...	1950.
7. Real earnings of workers	...	1947.

The British diagram dealing with Gross Domestic Product, Industrial Production and Retail Prices is scientific and enlightening, the curves ranging from 1900 to 1965, with 1958 as base in all the three cases, the two war periods shown flat with regard to the first two items, and actually showing the rise in retail prices. According to the British diagram, the data stand as follows:

Sl. No.	*Item*	*1900*	*1958*	*1965*
1.	Gross Domestic Product ...	62	100	117
2.	Industrial Production ...	32	100	128
3.	Retail prices ...	22	100	116

The condition of past and present statistics has been dealt with so far. A departure in the direction of statistical projection has been made in 'Material and Financial Balances' published recently by the perspective Planning Division of the Planning Commission. As a pioneering work, it is valuable. There is much evidence of elaborate pains taking and intelligent gathering and grasp of facts and trends. The input-output table (with 88 vertical and 86 horizontal items) given as a supplement contains a projection of production and demand at high-level and low-level investment upto 1975-76, but the authors themselves admit that the input-output table is of a *static* type. There are numerous categories of *negative* and *unforeseeable* inputs, which the authors could not possibly take into account at all, like droughts, floods, earthquakes, cyclones, fires, locusts, runaway prices, international fluctuations, behaviour of demand etc. In fact it would be futile to hazard even approximate estimate of such negative inputs. For instance, one single factor (drought) upset the Indian Plan calculation in 1965-66 and 1966-67. What the ordinary worker in India would lay down as his minimum standard of life by 1975-76, we have absolutely no firm ground from which to project.

Long term planning without a complete set of reliable statistics would be something like planning to build a skyscraper on a foundation of shifting sand dunes. As such, the urgency for the appointment of a high power Statistical Commission to examine all aspects of statistical data and homogeneous procedure cannot be exaggerated. Statistics as published in U.K. and U.S.A. have a great deal to suggest in this connection.

PRICE RISE IS A GLOBAL PHENOMENON

THE UPWARD trend in consumer prices is a 'global phenomenon', according to a United Nations study. The study quoting recent figures from more than 100 countries and territories, shows that the permanent upward trend continued throughout the world during 1966—often at an accelerated pace. In 60 per cent

of the countries and territories, the rise during the year was greater than the average annual rate for the entire 1960-1965 period. It more than doubled in one out of every four countries. Price increases soared more than 10 per cent in 16 countries, including India. The increases were more than 60 per cent in South Vietnam and Uruguay. An interesting feature was the slackening of the rate of increase in Argentina, Brazil and Indonesia—the 3 countries which had known inflation for some years. The study shows that price increases ranged between 5 and 10 per cent in 15 countries—5 in Africa, 2 in America, 4 in Asia and 4 in Europe. Increases varying from 3 to 5 per cent were recorded in 39 countries—including Canada, Japan and U.S., and 11 European countries. In the U.S., consumer prices increased by 3.7 per cent from October 1965 to October 1966 the steepest climb for a 12-month period in almost 10 years. Prices went up from one to 3 per cent in 23 countries including Australia, France and Italy. At the same time, price levels have hardly changed in Czechoslovakia and Poland. In 6 countries—Algeria, Cambodia, El Salvador, Fiji, Somalia and Uganda —prices dropped.

Referring to money wages and real wages, the study says that in 30 countries from where data were available, money wages increased but the rise in consumer prices partly absorbed monetary increases. Pay rises for workers in manufacturing industries were more substantial than for employees in other non-agricultural occupations. In most industrialised countries, wage increases generally outstripped rises in consumer prices. The study observes that it generally followed the pattern of previous year. 'It remained good in industrialised countries, particularly at the beginning of the year, but showed little advance in developing countries'. Figures from developing countries showed little change in the overall situation with rising levels of unemployment and under-employment, often saddled with steep rises in consumer prices.

ECONOMIC PROGRESS IN U.S.S.R.: 1967 PLAN

The year 1967 is a red-letter one in the Soviet Union. The 50th anniversary of the October Revolution falls on November 7—the paradox is due to a calendar change—and so the whole year has been a build-up to the great day. Politically, the picture after 50 years of Communism is far from ideal. There are now 13 Communist countries besides the Soviet Union but joy at this expansion is diminished by the fact that the leaders of by far the largest, China, have nothing good to say about the Russians. The Kremlin now leads only a minority of the world's Communists. In view of this uncomfortable fact, celebration was concentrated on the economic success of the Soviet Union. Here the picture is tolerably encouraging.

Mr Baibakov, the Chairman of Gos Plan, was able to report an industrial growth rate in 1966 of 8.4 per cent, against the planned 6.7 per cent. Thanks to this and to a record harvest, national product, he claimed, has risen by 7.4 per cent. He produced Plan figures for 1967 forecasting a 7.3 per cent growth in industrial output and a 6.6 per cent increase in national product—the latter figure realistically

allowing for a slightly smaller harvest in 1967 than in 1966. These figures look impressive but the Soviet Union nevertheless has plenty of problems. The central difficulty of a long standing nature is that the high rates of growth in the Soviet Union are only achieved by investing a much larger proportion of the national product in machinery than is done in Western Europe because of the lack of financial compulsion on managers. In the past, machinery has been much less effectively utilised than in the West. It is only now, with the introduction of the new management system, that this defect in Soviet organisation is being remedied.

In his report on the 1967 Plan, Mr Baibakov in fact spoke like a capitalist management consultant, concerned with getting better returns on capital. He said it was very important to get enterprises interested in expanding their out-put and in increasing not only the grand total of profits but also the amount of profits obtained per rouble of production assets allocated to them. Because of the long emphasis on machinery, Soviet demand for consumer goods is far behind Western Europe. Cars in particular, are still a rare luxury. The incentives of the new management system are creating larger incomes and thus a greater demand for the available goods. The consumer goods situation is, in a sense therefore, worse than before. The Government is putting large sums of money—including scarce foreign currency—into consumer goods. The Fiat and Renault deals will raise Soviet car production to about one million by 1970 or 1971. As for other consumer goods, Mr Baibakov said that, in 1967, it was intended to complete three cotton mills and one worsted mill and six hosiery and knitted-goods factories. Shoe factories, to produce 40-50 million pairs of shoes a year, are to be begun in 1967. Television set out-put will be 4.9 million in 1967, against 3.7 million in 1965, and washing machine production will be 4.3 million against 3.4 million in 1965. Even in capital goods, many of the products being passed forward most are those needed for consumer uses and there are signs that expansion of output is not going as fast as desired in the chemicals sphere. Mr Baibakov said that plastics output is to rise by 18 per cent in 1967, fibres by 9.1 per cent and chemicals for everyday use, detergents, etc., by 19 per cent. But he also said that construction plans of new chemical plants had fallen behind. The only strictly capital goods industry which is to get special attention is steel where, Mr Baibakov said, there were shortages slowing down development in machine-building, oil and gas, and building some of the extra steel which might be wanted. The greater competitor with consumer needs, defence expenditure, was raised in 1967 budget presented recently by 1100 million roubles (£ 440 million).

PLANNING IN JAPAN

The Economic Council, a 25 member advisory body of Japanese businessmen, economists and officials has proposed an annual growth rate of 8.3 per cent for the five year period 1967-71. The main planning section of the Japanese Government is the Economic Planning Agency but it has become the practice to leave the

formulation of plans to the Council. Planning in Japan is highly pragmatic. There have been four plans worked out for various purposes, the last of them being the medium range 1964-68 plan of the Ikeda Government, which was abandoned in consequence of slump that slowed down the economy in the last 3 years. The economy has now revived and the current growth rate is very high, though economists are disturbed by the fact that consumer price lines have also been high. Under the new plan it is hoped to keep the average annual rise of the consumer price index at 3.8 per cent so that the *per capita* income which is still low compared to that of the advanced countries may be quickly raised.

A striking feature of the new plan is that it has included 'social affairs' in its scope and envisages a big public work programme as well as a large block of governmentally financed housing for the people with low incomes. More than 7 million new houses are to be built during the five year period and there will be a big expansion of drainage systems, garbage disposal and other social amenities. The ratio of social security spending is to rise to 7.5 per cent of the national income. Japan is a country of full employment and it is feared that the expansion of the economy may be accompanied by a serious shortage of skilled labour. Press reports of the plan do not refer to educational expansion which is also essential in view of the heavy pressure on Japanese colleges and institutions of higher learning. Though the Japanese people have accepted a regime of high taxation in the interests of an expanding economy, they have not in the past insisted on the kind of all-round welfare services that have been provided in other advanced countries. They have preferred to demand that consumer prices should be kept down, especially the price of food. The ruling party in Japan has been dominated by businessmen who have put the main emphasis on the modernisation and expansion of the country's industry and exports. Most of the bigger industrial plants provide elaborate welfare services for their employees and much of the small business in Japan works to supply components to the bigger factories. While foreign investment in Japan has been encouraged, the Japanese have sought to retain control of ownership and management. During the coming plan, the major firms hope to install new plants which will be highly efficient and incorporate the most advanced technology. In the past decade, Japan has become a big investor abroad and has set up new plants all over the world. This trend is likely to continue, but Japanese foreign aid is extremely businesslike and good returns from foreign investment and credit are expected.

INFLATION IN U.K.

As in many other countries where full employment has prevailed and the demands on resources have been strong, Britain has had to deal with continuing inflationary pressures. The almost uninterrupted upward trend in prices has resulted principally from the tendency for money incomes to rise faster than the volume of production, thus raising costs throughout the economy. Since 1953, the average annual rate of increase in domestic incomes has been about 6 per cent,

while the increase in the gross domestic product per head of the labour force has been only between 2 and $2\frac{1}{2}$ per cent. Retail prices rose by 34 per cent between January 1956 and December 1965: over the same period, average weekly earnings of manual workers went up by 65 per cent. Company profits are subject to large cyclical swings, but since 1956 and especially since 1960, they have increased more slowly than employment incomes. Successive governments, to contain the pressure of demand, have relied extensively on monetary and fiscal measures, on variations in the volume and cost of bank credit, on hire-purchase controls, and on changes in the levels of taxation and public expenditure. More recently, Government policy on prices and incomes has been directed towards relating increases in money incomes to economic growth by establishing machinery to examine wage and salary claims and selected price increases, and towards increasing public awareness of the need for voluntary restraint of wage demands in order to preserve reasonable stability in costs and prices.

REALISTIC PLANNING IN U.K.

THE FOLLOWING points from an editorial in *Financial Times* dated 6-4-1967, deserve careful attention by planners in India:

1. Experience of planning during the last two years has not been encouraging in U.K.
2. The next National Plan is expected to be finalised by 1968 in more modest dimensions.
3. Business interests would like *indicative* Planning 'provided it does not attempt unrealistic detail'.
4. At the beginning of March, 1967, a preliminary paper prepared by the Department of Economic Affairs, was discussed by the National Economic Development Council.
5. The fixation of ambitious targets is now considered as a confidence trick because achievements have been far shorter.
6. The U.K. Government does not propose to worry about details, but wishes to confine itself to a few major industries which have a substantial bearing on the National Economy.
7. There will be two sets of target. One will be realistic on the basis of present data, and the other will be higher pending possible windfalls.
8. It has been realised by now that the rate of growth will depend not on physical capacity, but on demands of the balance of payments. 'The first Plan collapsed mainly because it did not take proper account of the Government's determination to give priority to the balance of payments. The second will seem duller mainly because it will not repeat the same mistake'.

9. Numerical projections can be useful only so far as they help towards bringing about changes of one sort or another, but they cannot be very different from astrological projections because International and political considerations exert their sway on the behaviour of the rate of growth. Expenditure on defence and aid abroad and rapid rise in public expenditure as a whole have special significance in the achievement of a low or a high rate of growth.

SAVINGS AND INVESTMENT

In any economy, investment is made possible by a corresponding volume of savings, domestic and or foreign, voluntary or involuntary. If no increase in the rate of investment (expressed as a percentage of the national income) is envisaged, it is normally (subject, of course, to some qualifications) assumed that since people are accustomed to save a certain portion of their income, they will continue to do so even in the lean period. When however, the rate of investment is to be stepped up, the magnitude of the effort to increase savings to the desired level is expressed by the concept of marginal propensity to save. The table below sets forth the marginal propensity to save as actually realised during the Second and Third Plans and as assumed by the Planning Commission for the Fourth Plan. All the figures represent the domestic effort to save, i.e., the inflow of foreign aid has been excluded all along. It naturally follows that in so far as the foreign aid during the Fourth Plan fails to come up to the expectations of the planners, the domestic effort to save would have to be correspondingly higher than that indicated in the table. The most important aspect of the saving behaviour in the Indian economy is that the marginal propensity to save is considerably influenced by the movement of prices. In particular, when prices rise rapidly, the marginal propensity to save also tends to rise. This is what happened during the Second Plan when a sharp rise in prices (35 per cent during the five year period) pushed the marginal propensity to save to a high level of 20 per cent from a much lower level of 5 to 10 per cent during the pre-plan years.

During the Third Plan period, the rise in prices was almost of the same order (32 per cent) and yet the marginal propensity to save came down to 9 per cent or about half of what it was in the Second Plan period. A possible explanation is that once you push up the marginal propensity to save artificially through inflationary devices, you need, under Indian conditions, an accelerating rate of increase in prices even in maintaining the earlier level of marginal propensity to save, achieved through inflationary technique. More important, for each one per cent point increase in the marginal propensity to save, you need a larger and larger dose of inflation. As for the Fourth Plan, all that can be said for the present is this: a 32 per cent increase in prices was needed during the Third Plan to attain a marginal propensity to save of the order of 9 per cent. What fantastic increase in price would be required to attain a marginal saving rate of 21 per cent during the Fourth Plan, is anybody's guess: The following table contains interesting figures.

TABLE 9

ESTIMATE OF MARGINAL AND AVERAGE PROPENSITY TO INVEST AND SAVE DURING THE FOUR PLANS

	First Plan	Second Plan	Third Plan	Fourth Plan
1. National income (at current prices) Amount ...	49,860	62,390	87,410	127,286*
2. Increase over the previous plan ...	...	12,530	25,020	39,876
3. Investment (in public and private sector Amount) ...	3,360	6,750	10,400	21,350
4. Increase over the previous plan ...	...	3,390	3,650	10,950
5. External assistance Rs. crores ...	203	1,090	2,455	4,700
6. Domestic Savings (in private and public sectors) Amount col. (3)–col. (5) ...	3,157	5,660	7,945	16,550
7. Increase over the previous plan ...	...	2,503	2,285	8,705
8. Average propensity to invest col. (3) as per cent of col. (1) ...	6.7	10.8	11.9	16.8
9. Marginal propensity to invest col. (4) as per cent of col. (2) ...	...	27.1	14.6	27.5
10. Average domestic propensity to save col. (6) as per cent of col. (1) ...	6.3	9.1	9.1	13.1
11. Marginal domestic propensity to save col. (7) as per cent of col. (2) ...	...	20.0	9.1	21.8

Source: 1. White Papers on National income.
2. Selected Plan Statistics December 1959, p. 24.
3. Third Five Year Plan, p. 32 Table 1 and p. 95.
4. Fourth Five Year Plan—A Draft Outline, p. 42 and 80.

Note: * The estimate is worked out with the following assumptions:
1. Estimated actual level of national income in 1965-66 at current prices = 19,990 crores, (vide: Fourth Five Year Plan—A Draft Outline, p. 6).
2. Likely national income in 1970-71 = 29,500 crores at 1965-66 prices.
3. Hence the compound annual growth of national income during the Fourth Plan is taken as 8.17 per cent. Since the plan document assumed no increase in prices, no adjustment for price changes is required.

* At post-devaluation rate of exchange.

GROWTH VERSUS STABILITY

THE FACT that the disinflationary fashion of the 1965-66 period is now steadily giving place to a reflationary one in the world at large, is obviously of great importance in itself. But what makes it particularly significant is that the change of trend is clearly linked with increasing support for the proposition that the price that has to be paid for complete monetary stability in terms of rapid growth is apt to be a very high one, so high that it is no longer realistic to accord top priority to

the stability objective in formation of economic policies. The Report on the 1966 Economic Experience prepared by Germany's council of Economic Experts attracted considerable interest because of the proposal it contained that the economic policy-shapers should seek a way out of the problem of reconciling the twin objectives of a satisfactory rate of economic advancement and the preservation of monetary stability through a gradual revaluation of the D-mark. But what was even more remarkable about this document was the strong challenge it threw down to the German Central Bank's long-standing contention that nothing is of greater importance than to see that the purchasing power of the currency is not reduced by inflationary pressure.

To put it in a nutshell, the report said that, while it was always desirable to work for monetary stability, an even more desirable objective was to see that economic advancement was not unduly retarded. It went on to make it clear that it took the view that the medium the German authorities struck between the two objectives in 1966 was far from being a happy one in the sense that it was weighed much too heavily on the side of stability. It is true that the Council went on to argue that there was a chance of Germany being able to get the best of both worlds if, among other things, she resorted to exchange manipulations to prevent inflationary stresses being imported into the country from the outside world. But the broad implication of the report was that there should be a change of emphasis in German policy whatever happened—in short that, if a choice had to be made between growth with creeping inflation and stability, the sensible thing was to choose the first. Bearing in mind the almost pathetic fear of inflation that exists in Germany, this was a revolutionary theme to attempt to develop. What is even more remarkable is that the new Government of Dr Kiesinger had displayed considerable sympathy with it. Thus it had hardly been in office more than a week or two when it began to put pressure on the German Central Bank to set the reflationary wheels in motion, knowing that the Bundesbank was still contending that there was a considerable danger of the success of its plan to restore monetary stability being jeopardised if the disinflationary drive were to be called off too soon. Because of the attitude Germany has adopted in the past, recent events in that country can be said to provide the most outstanding manifestation of the recent ascendancy of the view that monetary stability is an objective that should not be sought at any price. But it is far from being the only one. The way in which the Johnson Administration has set about dismantling the disinflationary measures taken to deal with the alleged danger of overheating in the U.S. almost before they had begun to bite, points to a major success in America too for the theme that growth is more important than the preservation of complete monetary stability. Anyone closely following the evolution of the international monetary science in recent months, would have discerned any number of other straws of the same variety blowing in the wind. A report published a short time back by Ireland's Economic Research Institute on the results of the measures taken there during the preceding year or two to combat inflationary pressure finished up by stressing that, in trying to reconcile economic expansion with stability, the Government would in future

be well-advised to err on the side of expansion. Similarly, setting out the dismal economic outlook for his country in 1967 recently, the Director of the Australian Economic Research Institute made it clear that he considered too much weight has been given to the views of the restrictionists or stabilisers and appealed to Government to adopt a middle course between them and the expansionists.

Then again, although the Japanese Planning Agency's projections for the fiscal year beginning in April next are clearly based on the assumption that the increase in the national production in money terms will materially exceed that achieved in real terms, there has been no suggestion in Japan that the time has come to start reversing the reflationary measures the Government has been taking to get the economy on the move after the 1965-66 recession. Japan's relatively brief acquaintance with the stop-start-stop form of economic life has evidently convinced her that there are worse things a country can suffer from than creeping inflation. The increasing rejection of the central banking community's contention that monetary stability is the greatest good, has important implications for the economic future of all countries in the more immediate sense. For, it probably means that the danger of the world being plunged into a recession by a chain reaction sparked off by the disinflationary vogue of the past year or two is beginning to recede—though it can hardly be counted upon to disappear altogether until the reflation deterrent represented by the world-wide shortage of international liquidity has been taken care of by suitable reforms in this field. The advance of the new fashion in thinking could also have longer-term consequences of great importance. For it clearly stems in the main from disappointment with the results of the practice of giving top priority to monetary stability that has been so much the thing during the past year or two. So it looks as though there will be less readiness in future for Governments to be induced to put the brakes on the growth on economic activity until it is evident that any inflationary steam that economic growth is getting is of a much more serious kind than the creeping variety. This does not of course, mean that efforts to eliminate inflation altogether are likely to cease. But there is clearly going to be a tendency for them to be carried less far and to have a different emphasis—to rely much more, for example, on the control of incomes and other measures that are less likely to get in the way of sustained economic advancement than the fiscal and monetary restraints that have featured so prominently in the disinflationary programmes of recent years. From the British point of view, the changing attitude abroad will have its advantages. For one thing, it should mean that the British export drive will be functioning in a more congenial international climate than would otherwise have been the case. For another, it should make it at least a little easier to see that the prices of British goods remain competitive. But it would be wrong to hope for too much from the development. Past experience shows that some foreign countries' export challenge is apt to feed on a fast rise of economic development even if that goes with creeping inflation. Japan has somehow managed to take the inflationary consequences of her exceptionally fast rate of expansion so much in her stride that no country has presented a bigger menace to British exports than she has.

THE NATIONAL BOARD FOR PRICES AND INCOMES IN BRITAIN

The national board for Prices and Incomes (NBPI) has had an essential role in each stage of the present Government's prices and incomes policy. The policy objective is that money incomes should rise in line with the long-term growth of national output and that a generally stable level of prices should be maintained. The board's part is, at the request of the Government, to examine and report on any question relating to prices charged for goods or services, to pay-claims or settlements or other matters relating to conditions of service and employment, or to any other form of income. It was originally set up by Royal Warrant on 8th April 1965, but became a statutory body after the passing of the Prices and Incomes Act in August 1966.

Responsibility for referring questions to the board lies with the First Secretary of State and Secretary of State for Economic Affairs, either alone or jointly with other Ministers. Under the Prices and Incomes Act, he may give the board instructions to keep certain prices or incomes under continuous review. In examining references; the board has to have regard to the criteria set out in the White Papers on the prices and incomes policy. It has interpreted its task as having three aims: first, to bring home to the parties immediately concerned, the wider implications of their actions, second, to bring these implications home to others involved in similar situations which are not before the board, third, as promoting a quicker adaptation of out of date practices to new needs through consultation between management, unions and the Government.

Earlier attempts to formulate a policy for prices and incomes in Britain had resulted in the setting up of the Council on Prices, Productivity and Incomes in 1957 and the National Incomes Commission in 1962. The former body was concerned with general issues only, while the functions of the latter, a standing Royal Commission, were solely advisory. The National Incomes Commission examined and reported on specific incomes references having regard to the national interest and the desirability of keeping the rise in money incomes in line with the long-term rate of growth of national output. It was dissolved in 1965.

The NBPI is under the Chairmanship of Mr Aubrey Jones, who held office in the Conservative Administration. It now has ten members drawn from management, trade unions, the professional and the academic world. Five of the members are full-time and five are part-time: they are assisted by a staff of about 160. There are also two panels, one representing employers, which was drawn up after consultation with the Confederation of British Industry (CBI), and the other representing employees drawn up after consultation with the Trades Union Congress (TUC). Members of the panels can be appointed to assist in the investigation of particular references. Questions referred to the NBPI are examined by a group consisting of at least 3 members of the Board, sometimes assisted by a member of each panel. The Board as a whole, however, retains responsibility for the final report on the reference.

The work of the Board was outlined in the White Paper, Machinery of Prices and Incomes Policy, but the Board was left to decide its own procedure. It was originally suggested that it should work in two separate divisions to be known as the Prices Review Division and the Incomes Review Division. The problems of prices and incomes were, however, found to be so inextricably bound together that the Board does not in fact divide its work in this way.

The first stage of an enquiry is to determine which organisations—employers' associations and trade unions, for example—are involved and the exact nature of the issues. This is followed by the preparation of background papers and the identification of the available sources of information, including statistical material. All the parties directly concerned are contacted, including the responsible government departments and other bodies or individuals who may be able to help—such as research organisations or departments of universities where investigations are being conducted into subjects relevant to the reference. In most cases, written memoranda are requested and, where appropriate, oral evidence is taken. Discussions between the Board and interested parties are conducted in private, although the Board is free to sit in public if it wishes. Under the 1966 Act, the Board has the power to call witnesses and require evidence. It has not so far used these powers.

In connection with references on pay questions, the Board normally carries out surveys to obtain supplementary statistical information on the distribution and composition of earnings from a sample of employees all over the country. In the case of prices, it examines cost structures, levels of efficiency, profit margins and the rate of return on capital employed in a sample of the firms involved. These and similar studies have helped the Board to assess the extent to which working practices could be changed and wages structures improved.

Up to the middle of June 1967, the Board had published some 36 reports, including a *General Report* on its first 15 months' work. In two cases, it published, in a statistical supplement to the main report, the information collected in the course of its investigations. In its *General Report*, covering the period up to July 1966, the Board stated that, in almost all its investigations, it had been able to obtain the co-operation of both sides of industry or the parties involved. In one or two investigations, it had been hampered by the unwillingness or partial failure of the parties to provide evidence.

Up to the imposition of the standstill on prices and incomes in July 1966 the Board's recommendations were usually of two kinds: the first was concerned with the immediate situation—whether a particular proposal relating to prices or wages was justified or not: the second was concerned with the longer-term—suggesting, for example, ways in which productivity in the industry might be improved in order that future price increases could be avoided. Its recommendations in the main have been accepted by the parties concerned, but its wage proposals have occasionally been modified in the course of subsequent negotiations. In some cases, contact with the parties to a reference had been maintained after a report had been published.

During the period of standstill and the period of severe restraint, the NBPI continued to examine proposed increases in prices or wages against the criteria set out in White Papers. The Board was also asked by the Government to consider more general questions affecting prices and incomes policy. It has, for example, reported on productivity agreements (i.e., agreements to increase productivity under which workers accept more exacting work or a major change in working practices in return for higher pay or improvements in benefits). In the first of two reports on this subject, it suggested guide-lines for judging the circumstances in which higher pay in return for increased productivity might be justified during the first half of 1967. In the second report, published on 13th June 1967, it brought these guidelines up to date. It has also considered several questions relating to the lowest paid workers—who are given special treatment under the Government's prices and incomes policy—in references on the pay of workers in agriculture, in retail drapery, out-fitting and footwear trades and in other occupations. In the report on the retail drapery trades, the Board recommended the Government to remove any impediment to statutory Wages Councils taking account of the requirements of national policy on prices and incomes when recommending minimum wage rates for the industries concerned.

Because of their importance to the economy, the Government, at the request of the NBPI, have referred to it for examination job evaluation schemes and payment by results systems. The professions and white collar workers have come under scrutiny by the NBPI in references on solicitors' fees, architects' fees and London weighting in the non-industrial Civil Service (i.e., additions to the national rates of pay made to staff working in the London area). All these are at present under consideration.

The first step in the formulation of the present Government's incomes policy was the signing of the Joint Statement on Intent of Productivity, Prices and Incomes in December 1964, which indicated the lines of action to be taken by the Government and by management and unions in the implementation of a joint approach to the policy. The subsequent setting-up of the National Board for Prices and Incomes stemmed from one of the undertakings given by the Government at that time. A White Paper, *Prices and Incomes Policy*, published in April 1965 set out the considerations which should guide all concerned with determining prices and incomes.

In September 1965, in view of the urgent need to make its prices and incomes policy more effective, the Government announced its intention of introducing legislation to provide for a compulsory 'early warning' system for prices and incomes. These powers were to reinforce a voluntary early warning system which was introduced late in 1965. The purpose was to give the Government adequate opportunity to consider proposals to increase prices or wages and whether to refer them to the NBPI. Under the voluntary arrangements, which remain an important part of the Government's objective of establishing a prices and incomes policy on a voluntary basis, proposed price increases are notified to the appropriate government department while pay claims and settlements are notified

to the TUC or to the Ministry of Labour. The implementation of proposals notified under the scheme is expected to be delayed for a short time while they are considered by the Government (a decision to refer to the NBPI has to be taken within four weeks) and, if they are referred to the board, for a further period of up to three months pending the Board's report.

On 20th July 1966, in view of the fact that money incomes had been increasing at a much faster rate than could be justified by increasing production, the Prime Minister called for a standstill on prices and incomes for a period of twelve months. The object for the first six months (up to the end of December 1966) was to avoid increases in prices and incomes altogether: this was to be followed by a period of severe restraint in the first half of 1967. In addition to wages and prices, the standstill also covered other forms of money incomes and company distributions.

The Prices and Incomes Act 1966, which received Royal Assent on 12th August 1966, established the National Board for Prices and Incomes on a statutory basis and gave the Government powers of two kinds which could be brought into operation by Order in Council. First, under Part II of the Act, powers could be taken for a renewable period of twelve months to require notification of proposed increases in particular prices and charges, increases in company distribution, and of particular claims, awards or settlements relating to terms or conditions of employment. The implementation of such proposals would be prohibited for up to 30 days after notification. In the case of a reference to the NBPI (whether or not as a result of notification) a standstill would be imposed pending the Board's report up to a maximum of three months from the date of the reference. Second, under Part IV of the Act, unrenewable powers could be taken for a limited period of twelve months from the passing of the Act to require that particular prices or the pay of particular workers should not be increased or should revert to the level prevailing on 20th July 1966. Part IV of the Prices and Incomes Act was brought into operation on 6th October 1966 and was effective until 11th August 1967. Only limited use has had to be made of these powers.

The Secretary of State for Economic Affairs announced in the House of Commons on 17th April 1967 that the Government proposed to take new reserve powers to support its prices and incomes policy. He said that, while the Government was determined to work with the CBI and the TUC for an effective policy on a voluntary basis, it was considered that further limited powers would be needed after the expirty of Part IV of the Prices and Incomes Act 1966. Part II of the Act, therefore, would then be brought into operation and strengthened by means of further proposed legislation, in the form of the Prices and Incomes (No. 2) Bill, which was published on 5th June 1967.

In this Bill, the Government sought powers, exercisable for a period of twelve months from 12th August:

(1) To extend the maximum period of standstill under Part II of the Act from three to six months from the date of reference to the NBPI in cases where the Board has recommended against an increase:

(2) To secure the suspension for a maximum period of six months of price or pay increases already implemented without advance notification or before the Board has reported on a reference made to it or which have been implemented in spite of a contrary recommendation by the Board.

This legislation is intended to ensure that parties will, before proceeding to implement any increase in prices or incomes, pay full regard to the Board's findings and recommendations in the national interest. The new powers will, however, be strictly limited, of a temporary duration, and are specifically designed to support and encourage the voluntary principle within a framework of an examination by the NBPI.

The current phase of the prices and incomes policy is outlined in the White Paper, *Prices and Incomes Policy after 30th June 1967*. It provides for more flexible arrangements for the regulation of prices and incomes by the re-application of substantially the original criteria set out in Cmnd. 2639 together with certain additional considerations: it also provides for the continuation of the early warning system.

While all prices and charges are covered by the policy in administering it, particular attention is being paid to prices which are of economic significance, and specially to those of importance in the cost of living. The criteria outlined below are intended to be applied in the twelve months after 30th June 1967 by all concerned—retailers and wholesalers alike—in the determining of prices and charges in the private and public sectors, including the nationalised industries. The White Paper states that price increases should take place only where they can be fully justified against these criteria, and every effort should be made to absorb increases in costs. The criteria are as follows:

(1) If output per employee cannot be increased sufficiently to allow wages and salaries to increase at a rate consistent with the criteria for incomes without some increases in prices:

(2) If there are unavoidable increases in non-labour costs such as materials, fuel, services or marketing costs per unit of output:

(3) If there are unavoidable increases in capital costs per unit of output:

(4) If after every effort has been made to reduce costs, the enterprise is unable to secure the capital required to meet home and overseas demand.

In the case of (1), (2), and (3), efforts must be made to seek offsetting reductions in prices. Conversely, it is emphasised that broad stability in the general level of prices requires that price reductions should be made wherever possible to offset price increases that cannot be avoided.

The continuing objective of the incomes side of the policy is to develop effective arrangements for ensuring a closer relationship between the over-all growth of money incomes and the growth of national output, to raise productivity and efficiency and to promote social justice. A norm of 3 to 3½ per cent prevailed

up to July 1966, but the White Paper states that in the present economic situation, there can be no justification for returning to this; over the twelve months beginning 1st July 1967, no one can be entitled to a minimum increase.

The White Paper also emphasises that the country cannot afford any further reduction in the standard working week or general movement towards longer holidays: similarly, less regard should be paid to such factors as general comparisons with incomes in other employments or changes in the cost of living. Any proposed increase (or other significant improvement) would need to be justified in relation to the following criteria:

(1) Where the employees concerned, for example, by accepting more exacting work or a major change in working practices, make a direct contribution towards increasing productivity in the particular firm or industry (even in such cases some of the benefit should go to the community as a whole in the form of lower prices):

(2) Where it is essential in the national interest to secure a change in the distribution of manpower (or to prevent a change which would otherwise take place) and a pay increase would be both necessary and effective for this purpose:

(3) Where there is general recognition that existing wage and salary levels are too low to maintain a reasonable standard of living:

(4) Where there is widespread recognition that the pay of a certain group of workers has fallen seriously out of line with the level of remuneration for similar work and needs in the national interest to be improved.

In applying these criteria to proposed increases under new agreements, the following additional considerations should be taken into account:

(1) Twelve months should be regarded as the minimum period which should normally elapse between the operative dates of successive improvements for any group of workers:

(2) In some cases it will be appropriate for substantial improvements in pay or conditions, which may be justified under the criteria, to be achieved by stages:

(3) The parties concerned should not seek to make good increases foregone as a result of the standstill and severe restraint.

The reports of the NBPI are commended as giving valuable guidance on the interpretation and application of these criteria.

The White Paper also indicates that pay settlements, the dates of which have been deferred at least until 1st July 1967 under the period of the standstill and severe restraint, may be implemented from that date, unless a later date is agreed or the commitment is at 1st July 1967 the subject of a reference to the NBPI or the board has recommended a different operative date.

The policy contained in the White Paper also applies to dividends, rents and rates. After the end of the standstill on company distributions in July 1967 companies are expected to exercise moderation in the payment of dividends on

ordinary shares, consistently with the principles set out in the White Paper. The Government may refer to the NBPI cases where growth of profits or dividends is based on excessive market power. Similarly, while it is not possible to apply directly the criteria for increases in prices or incomes to rents or rates, it is stressed that there should also be moderation in determining such increases by landlords and local authorities.

REGULATION OF INCOMES AND PRICES IN INDIA

A Steering Group on Incomes, Wages and Prices Policy was set up by the Governor of the Reserve Bank of India in June 1964. The unanimous Report of the Steering Group was published on January 25, 1967. The Summary and conclusions of the Report are detailed below. This Report has attempted to delineate the framework of incomes and prices policy in the context of planned economic development of the Indian economy and to outline the main instruments of its working. The report, however, does not seek to furnish precise answers to the many issues of incomes policy; for, with the numerous gaps in statistical information especially in the sphere of agricultural income, wage structure, labour productivity, etc., and the complex background for the determination of incomes policy in India, it is possible at this stage only to provide tentative guidelines for consideration in the formulation of an incomes policy. The Group feels that if framework for the implementation of incomes policy such as worked out in the report is offered as a basis for wider public discussion, it may be possible, in due course, to formulate a more definitive incomes policy and forge the specific instruments for its implementation.

While Plan objectives constitute the general framework for the incomes and prices policy, the specific structural characteristics of the Indian economy form another equally important part of the broad context in which such policies have to be formulated. The objectives of planned development as re-iterated in the Draft Outline of the Fourth Five Year Plan are: (*a*) a high rate of growth in the national product; (*b*) progressive improvement in the standards of consumption of the mass of the people; (*c*) enlargement of the opportunities for gainful employment in a measure commensurate with the increase in the labour force; (*d*) achievement, in course of time, of self-reliance in terms of equilibrium between investment and saving; (*e*) non-inflationary process of economic growth; and (*f*) avoidance of conditions making for accentuation of income inequality and concentration of economic power.

The specific characteristics of the Indian economy to which the formulation of an incomes policy should be related are the following; first, the major part of employment in the country is in the rural sector and more than half of the national income is generated in commodity-production and service activities in this sector, in which there is a predominance of self-employment. Second, a significant part of the output in the rural sector is retained by the producers for their own consumption; similarly, a considerable portion of rural investment is on the basis of direct rather than monetary savings with a very small amount of transferable savings.

Third, in contrast to the rural sector, incomes in the urban sector oirginate from manufacturing industry, trading and other service activities, with relatively well-developed markets for commodities and factors of production. Fourth, the extent of diversification in the industrial sector is limited despite progress in the last fifteen years. The bulk of the manufactured consumption goods is based on agricultural commodities and the development of investment goods industries is modest. A natural corollary of this is that imports generally consist of capital goods and industrial raw materials, while the major part of exports consists of products of agriculture, agricultural-based industries and the mining industry. Fifth, the development of the social overheads like irrigation, power, transport, communication, education and health facilities, though appreciable in the last few years, is still inadequate in relation to the needs. Sixth, since the *per capita* incomes are low, there is little margin for voluntary savings in sufficient measure for financing development with the result that there is a large reliance on foreign aid to supplement domestic saving. Finally, there is a very uneven distribution pattern of income and wealth and to a smaller extent of consumption in the economy with a concentration of economic power in the hands of the relatively better off classes roughly corresponding to the degree of skewness in income and wealth distribution.

Though the need for an incomes policy has been under discussion in most of the developed countries such as the Netherlands, Sweden, France, Norway, the United Kingdom and the United States in the last few years, hardly any operational incomes policy has been evolved in any country except possibly the Netherlands. In the main, the aim of incomes policies in the developed countries has been to ensure that increase in wages and other incomes do not outstrip the growth in the real national product with a view to securing stability of the general price level. On the other hand, too, it is generally agreed amongst the developed countries that incomes policy can succeed in its objective much better in a stable economic environment brought about by a conjuncture of sound economic policies and with a consensus reached among the major socio-economic groups. Further no incomes policy can succeed unless it can ensure a growth in real incomes somewhat higher than what can be attained without it.

The general context for an incomes policy in India, however, is different from that in the developed countries. In developing countries like India, self-employment of the working force is the rule, in contrast to the predominance of wage-employment in the developed countries. Thus the policy instruments in India for an incomes policy have to be different and more complex than in the developed countries. Incomes policy has, therefore, to be co-ordinated much more effectively with the other economic policies in India.

With the process of planned development, the specific role of incomes policy would be to ensure that the broad pattern of generation of money incomes is consistent with the Plan and that the disparity in income distribution and consumption is reduced in terms of the Plan objectives.

In concrete terms, the essential objectives of an incomes and prices policy in the Indian context would be the following: (*a*) to generate from domestic income

the savings necessary for ensuring non-inflationary financing of investments; this includes broadly, regulation of growth of disposable incomes so as not to exceed the rate of growth of productivity per labour unit and not to be out of accord with the pace of growth of *per capita* consumption so that the necessary saving could materialise; (*b*) to adjust domestic demands in such a manner as to minimise the pressure on balance of payments—the internal economic balance conducive to external payments balance; and (*c*) to narrow the disparities in real incomes as between sections of the community and as between individuals through more effective arrangements for distribution of the national product on as wide a basis as possible.

In pursuing all these objectives concurrently, conflicts will arise because changes in income structure favourable to one may not always be conducive to the achievement of some other objective. However, such conflicts cannot be avoided in any economy seeking to combine rapid development with social justice; the simultaneous pursuit of multiple objectives would be easier when national income is growing rapidly than when it is stagnant or growing only gradually.

Since the structure of incomes and the structure of prices are affected by all the different aspects of economic policy, incomes are integrated with investment policy, fiscal policy, foreign exchange policy and policy for institutional changes, etc. It is, of course, difficult to draw firmly the boundaries between each such set of policies and there would be inevitably areas of common interest.

This implies that the instruments which are to be used for increasing domestic production, improving the balance of payments, and enlarging the public sector will between them, constitute the main content of income formation and set its pattern for the most part. Similarly, the trend and level of prices will be powerfully influenced and largely determined by fiscal and monetary policies. Thus, if the basic fiscal and monetary outlook is inflationary and disruptive of external balance, incomes and prices policy as such will be largely infructuous and inadequate by itself to restore the balance of the economic system. In the contrary case, with adequate fiscal and monetary policies, income and price policy may have only a limited role. However, it is only if it is properly co-ordinated with the other aspects of economic policy that incomes policy could succeed in its limited objectives. Even so its role would be ancillary to the other major policy instruments.

In a large developing economy, such as ours, it is obviously impossible to devise measures to deal with each income or price variation. It is therefore necessary to group such incomes and prices in operationally distinguishable categories and identify instruments that should be used for influencing them with a view to achieving the objectives. In making out the relevant categories, it is advantageous to think in terms of incomes and prices separately, despite their close inter-relationship over large sector of the economy. On the basis of the characteristics of the existing economic structure in India, four broad types of classification of income disparities seem to be relevant for framing the approach to incomes and prices policies. These are: (*i*) sectoral categories such as rural and urban incomes or agricultural and non-agricultural incomes; (*ii*) functional categories—that is to say, wages, profits, rent and interest; (*iii*) size categories—high incomes and low incomes

especially in regard to personal incomes; and (*iv*) institutional categories—such as Government income, corporate income and household income.

Though there can be other ways of classifying incomes, the scope of income distribution can be conceived in terms of the above main types of income groupings. It is with reference to these income groupings that the policy has to be evolved. In respect of all these approaches to the question, the crux of incomes policy in the Indian context consists of achieving 'fair' distribution consistent with the economic objective of accelerating the pace of capital formation and structural changes conducive to self-reliant growth.

Planning aims at bringing about a change in the relative contribution of the different sectors of the economy to the national product. In the main, the Plans envisage a faster development of the manufacturing and service sector than of the agricultural sector there by reducing the relative share of agriculture in the total national product. The Plans will also affect the distribution of income between functional categories. With the coming into existence of new productive activities, and the progress in technology, factor combination in different sectors will alter significantly. And this may change the income distribution in such a way that the proportion of non-wage income to national income may rise. The changes in both these income categories, that is, sectoral and functional, may not fully meet the requirements of equity but then these changes in aggregative terms should be viewed in relation to the economic requirements of growth and diversification. It is only in regard to the subsequent stages of readjustment in the size distribution of personal incomes that concepts of 'fairness' have immediate relevance. In general, in visualising an incomes policy for India, it would be appropriate to start with a distinction between incomes in major sectors like agriculture, industry and services; and then, within each sector, distinguish the functional categories of wages, rent and profits. The set of measures to be adopted can, therefore, be conceived in terms of shifts in these various elements in the major sectors.

As stated above the question of equity acquires importance essentially in respect of the pattern of personal disposable incomes. However, in this case, the concept of 'fairness' is a rather vague and difficult criterion to apply in practical terms. In the main, it has two aspects. The first of these is in terms of an acceptable range of variation. It is in this context that notion such as 'national minimum income', 'minimum wages', or 'ceilings on incomes' are brought up in discussion of policy. The second aspect relates to comparable rewards for comparable work. It is rarely that both these criteria are satisfied in devising a structure of incomes.

As regards the first, specification of a range for personal incomes in terms of a national minimum and a national maximum is not by itself a policy measure capable of direct implementation, particularly in a mixed economy such as India's. The levels so specified have to be reached through various other policies directed towards the creation of employment and incomes and limiting the addition to real income of those in the upper income brackets. Any such shift should be consistent with the requirements of capital formation for economic growth. Even without specifying a rigid or precise range, however, investment and production, as well as

fiscal and institutional policies should be so adapted as to take the economy towards, a fairer pattern of personal income and personal consumption standards.

In regard to the second aspect of fairness in distribution, the general criterion could be that incomes rise should be determined on the basis of productivity increases. Since wages are, by and large, determined by negotiation or awards, it is easier to use productivity as a basis for fixing them. In the case of non-wage incomes, the problem of relating such incomes to productivity can be approached through identification and elimination of non-functional elements in such incomes, so that they would broadly represent real rewards for efficiency, effort and saving. If thus wage incomes and non-wage incomes are linked to productivity, money incomes would not outstrip productivity resulting in inflation and instability.

From the point of view of the objective of steady and non-inflationary growth, the measure of productivity which would seem relevant and appropriate for setting the general course of incomes is not productivity in any particular unit or a sector but in the private economy as a whole i.e., economy excluding Government services. To eliminate short-term fluctuations in this measure, a five years' moving average of the rate of change in productivity should be used. However, the criterion of linking of increase in money incomes to the productivity in the private economy has to be qualified in view of the requirement of progressively raising the saving income ratio in the economy.

Related to the regulation of the reward for labour or for services of special groups of the working population is the question of 'fair' rewards or return for capital. In this respect the guiding principles should be to offer a return which would be adequate to attract enough resources in a competitive market for capital and other factors of production so as to enable the industry concerned to expand at the desired rate.

A far larger question than of industrial wages is that of labour incomes in agriculture. The problems here are also vastly more complex and difficult, since employment is in considerable part casual, seasonal or non-regular and wages are governed to a substantial extent by non-economic elements such as tradition, caste, etc. Besides, wages are not always paid in money though the degree of monetisation or payment in cash varies according to the crop and has been on the increase. There are considerable disparities in wages between regions, between different crops as well as between the wages paid to men, women and children. Owing to these very conditions agricultural labourers as such are not able to employ methods of collective bargaining.

Although Government has attempted to fix minimum wages through legislation, its implementation has been beset with a number of difficulties which arise mainly from the very ills of poverty and illiteracy as well as from such structural factors as the small and scattered nature of agricultural farms, the casual character of employment and the dispersal of farms. All these difficulties only serve to emphasise that the predominant components of any policy for agricultural wages will have to be, at this juncture, a sustained improvement in the productivity of agriculture and the assurance of stable and reasonably remunerative prices for

agricultural products. These, together with such transfer of labour from agriculture to industry as could be organised in consequence of growth of the industrial sector, should, between them, provide the main means for improvement in the wages and conditions of work of agricultural labour.

The question of self-employed persons in agriculture is somewhat different from that of agricultural labour. Although in terms of income received these persons are not significantly better off than agricultural labourers, they are in a position to benefit directly from any increases in productivity that may occur as a result of investment programmes of the Government, provided the prices of agricultural products are maintained at a remunerative level. Therefore, the problem in their case is mainly one of an appropriate prices policy.

In regard to salaried classes, there is hardly any difference at the lower end between their economic status and that of the wage earners, though unlike in the case of wage earners, it is difficult to rate salaried employees in terms of productivity, owing to the administrative nature of their duties. On the whole, at the lower end, the policy in regard to incomes of the salaried class may bear close parallel to wages at the corresponding levels of industrial labour; the basic consideration here is similarity of needs and standards of skill and educational attainment of the workers rather than comparability of their contribution to productivity. At the higher end, salary earners render services comparable with those of enterpreneurs or independent professionals with specialised skills. At these levels, therefore, the broad considerations of restraining increases in incomes through fiscal or other means do apply.

The norms for incomes adopted in the public and private sectors for persons with equivalent skills have come to diverge. Whereas in the public sector a policy of reducing income disparities between the lowest and the highest paid employees has been followed, in the private sector the determination of remuneration, particularly in the highest income brackets, does not either reflect any such policy or always derive from an application of strict economic criteria, being influenced by social and other considerations as well. However, for rationalisation of the structure and system of private sector salaries, reliance should be placed more on appropriate fiscal policies and development of modern management practices than on imposition of formal regulations for direct fixation of emoluments.

The problem of salaries, including salaries within the public sector undertakings, requires a careful and considerate approach which takes fully into account the need, on the one hand, for avoiding inflationary spirals and, on the other, imparting to the wage and salary structures in the private and public sector undertakings, especially for scientific, engineering and technical personnel, a resilient quality conducive to improving efficiency and maximisation of effort and output.

Guidelines for wage and incomes policy may now be summarised:

(*i*) Administratively, the scope for regulation of wages is limited to areas of organised industry and economic activity where modern processes of production are used. The problem of wage regulation in agriculture is basically different from the one in industry.

(*ii*) As a general rule, we should aim at regulating movements in money incomes so as to keep incomes in step with trends in national productivity moderated to some extent by the need to maintain a growth of consumption slower than productivity.

(*iii*) In measuring productivity it is necessary to take into account both the long-term and short-period trends. A five years' moving average of the rate of change of productivity in the economy would be a good general guide for regulating changes in money wages.

(*iv*) The trends in productivity are to be considered as outer limits for wage and income adjustments, so as to prevent increases in wages and incomes from generating inflationary pressures. In actual implementation, however the productivity criterion should be so operated that the entire gains in productivity are not absorbed by immediate increases in consumption. A suitable modification of the productivity criterion would be to allow an increase in wage rates at some combination of the trend rate of growth of productivity and consumption in the economy, both based on five years' moving averages, so as to provide the necessary margin for growth of savings and capital formation in the economy.

(*v*) Productivity would be rising at varying rates in different sectors where productivity rises faster than the national average may have a claim to get increases in wages somewhat higher than the national average increases in productivity especially where this is warranted by the contribution of labour to productivity. Correspondingly, wages in the other sectors where productivity rises less than the national average would have to rise at rates somewhat lower than the national average. The best general rule, however, is to regulate increase in wages and money incomes in different sectors and industries at a rate which takes account largely of the growth of productivity in the economy as a whole, but to some extent also of productivity in the sector or industry concerned.

(*vi*) Productivity-linked wage schemes should in general be such as will enable a part of the benefit of rise in productivity to accrue to the community in the form of lower prices of the products concerned.

(*vii*) In operational terms, in determining the income levels of various functional groups, a variety of other factors such as the basic minimum or need of social amelioration, cost of living increases and incentive wages for the promotion of economic efficiency have to be given due weightage along with the trend in productivity.

(*viii*) Positive production and prices policies are necessary to make an incomes policy effective, because rising prices of essential consumption goods depress real incomes directly and have the indirect effect of accentuating the degree of income inequality. This implies that there should be a close relationship established between incomes policy and production and investment and prices policies.

In relation to the question of incomes policy a view has to be taken in respect of the appropriate price structure. For fashioning the tools of policy, a workable classification has to be attempted. As in the case of the income categories, it will be useful to consider questions of price policy also first in terms of sectoral categories—such as agricultural prices, and prices of manufactured articles—and secondly in terms of consumption goods—such as essential consumption articles, luxury articles so on.

In conceiving of a price policy in terms of sectoral categories, it is essential to bear in mind certain compulsions involved in the process of rapid economic growth. When the rate of capital formation has to be stepped up sharply, restraint on consumption is necessary and the problems of divising appropriate techniques including prices incentives for effecting the desired-shifts from consumption to investment becomes more urgent and complex. The impact of a rise in money incomes generated by new investment is severely felt on wage goods, principally foodgrains. Once begun, the process of price rise does not remain confined to food prices for long. Since food forms a significant proportion of the expenditure of the wage earners, the wage rates in an expanding industrial sector tend to move up thereby transmitting an initital sectoral imbalance to the general economy in the form of inflationary pressures, which is what seems to have happened in India during the last decade. It is in such an economic context that the policy for prices has to be formulated. The discussion of appropriate price policy divides itself into two parts: the policy for prices in the agricultural sector and the policy for prices and profits and other non-wage incomes in the industrial sector. Both of these would have to be an integral part of the overall economic policy directed towards achieving the objective of economic growth.

As regards agricultural commodities, the price policy should be so devised as to accord with the needs of a rapid growth of productivity in the agricultural sector. While the prices offered to the producers should be remunerative enough to act as an incentive to them for putting in greater effort and raising investment, care has to be taken to see that the prices charged to the consumers are not unduly high. As regard the price policy for the non-agricultural sector, some difficult problems arise. The profits of the industrial sector provide the sinews of expansion in a growing economy and the rate of profitability of industry has to be maintained to sustain the growth of the economy. This calls for a price policy which can ensure a reasonable rate of return on investment in industry especially in the form of equity. On the other hand, the price policy for the industrial sector cannot ignore the unhealthy impact of the growing volume of profits on economic concentration which has far-reaching political and social implications. Thus both the objectives of growth and equity have to be kept constantly in mind in the formulation of the policy towards the non-agricultural sector.

Incomes which accrue by way of profits, dividends and rent are largely determined by the relative prices of inputs and outputs. Consequently, they will vary in accordance with the policies pursued for regulating price increases, both generally and in specific markets. Policies for prevention of inflationary price increases

thus constitute necessary instruments for containing these incomes within reasonable limits. Likewise, price and distribution controls applicable to particular commodities or industries may help in curbing undue increases in this type of incomes. Price controls as such are, however, an instrument of limited efficacy in a large, complex and partly unorganised economy and measures for influencing prices in a desired way require considerable scope for manoeuvre as well as a degree of sophistication.

Besides measures for price regulation, it will in some cases, be possible to set certain constraints on these incomes i.e., profits, interest, rent etc.—in the shape, for example, of limitation of the rate of dividends, or of rents. It will, however, be difficult to implement such regulatory measures effectively unless their areas kept within the manageable limits. The most practicable instrument for dealing with high incomes of this sort will be the effective enforcement of a progressive tax system, supplemented by an adequate system of taxation of capital gains and an expansion of public control over the material means of production.

An important aspect of incomes policy concerns the machinery for continuous consideration and review of the policy instruments for the operation and effective implementation of incomes and prices policies. The functions of a machinery for incomes policy would comprise: (*i*) organising technical studies of income formation and distribution, trends in productivity and consumption by broad sectors, price trends, relative prices of agricultural and non-agricultural commodities and other inter-sectoral price variations; (*ii*) maintaining a watch over developments in various spheres such as wage awards and recommendations and decisions in regard to prices relevant to an incomes policy; (*iii*) working out the guidelines for incomes policy as well as suggesting instruments for implementation; and (*iv*) taking suitable measures towards promoting a better understanding by the different sections of the population of the various issues involved in framing and adopting an incomes policy.

To enable these functions to be perfomed efficiently would require a machinery which not only arranges for a systematic collection and analysis of information on the various aspects of the development in the economy concerning incomes policy, but which has the requisite stature so that its various authorities concerned with taking a machinery may be conceived in terms of a two-tier organisation, one of which could work at the expert level while the other would be a body consisting of representatives of the various interests such as employees, employers and the Government who are concerned with the incomes policy and on whom would fall the responsibility of working for the acceptance of an incomes policy by the general public as well as specifically by bodies of employers and employees. The precise composition of such an organisation is a matter for consideration. At the same time arrangements need to be made immediately for handling the technical part of the work necessary for framing an incomes policy.

Some of the studies can be undertaken by the existing agencies such as the National Income Unit of the Central Statistical Organisation, the Department of Economic Affairs, Ministry of Finance, Planning Commission and the Economic

and Statistics Departments of the Reserve Bank. However, the important point is that the work done in these organisation should have a definite orientation from the point of view of incomes policy. For this purpose, it appears necessary that at least a separate cell of a group is set up on a continuing basis from amongst the experts from these organisations with the specific responsibility of arranging for the various studies in their respective organisations and co-ordinating the results.

TAX CUTS AND GROWTH

THE FEDERATION of Indian Chambers of Commerce and Industry at its last annual general meeting called upon the Government to launch a new phase of tax cuts to help 'growth-generating activities by the people for the people'. It has also asked for eliminating the surcharges on income-tax, and urge the Government that the maximum marginal rate of tax on personal income should be substantially brought down. In view of the fall in the value of money, the tax rate slabs should also be appropriately revised. In particular, dividend income should be treated as earned income.

In its resolution on 'Taxation and Economic Development', the Federation is of the considered view that the present economic situation is causing great hardship to all sections of the community and it is convinced that the tax policy followed by the Government is mainly responsible for increasing prices, inhibiting expansion of production, reducing savings in the hands of the people and rendering the capital makers to a lifeless condition. The Federation and other 'responsible organisations' have been bringing year after year to the notice of the authorities the adverse consequences inherent in the tax policy pursued; but it is unfortunate that no heed at all was given. On the contrary, the need for finding funds for development as well as defence was emphasised. Even this argument has lost its validity since the budget of 1966-67 when tax incidence was raised along with a reduction in both defence and development expenditures. This only proves that the bias for increasing tax receipts is unabated, and what is worse, a major part of financial resources raised at the cost of the community have gone into prestigious projects or civil expenditure which merely create un-productive employment.

The Federation feels that the incidence of corporate tax both in public and private companies should also be appreciably reduced. The surtax on company profits is a tax on growth, affecting initiative and risk-taking and should be withdrawn. One uniform rate of tax should apply to all categories of companies, and plough back of profits by certain classes of private companies should not be discriminated against as is the case at present. The vexatious annuity deposit scheme should be scrapped and the relief in respect of new industrial undertakings should be made more effective. Indirect taxes, which might continue to form a large element in the final price, have to be rationalised. Another resolution on the implications of agricultural development says that the growth of agriculture of the kind and at the pace necessary can only be accomplished if the working methods of modern industry are applied to agriculture. On this basis, therefore, the

Federation is convinced that those who are in industry have an important contribution to make to the development of agriculture. The Federation is of the view that there are many close and interlocking links between agriculture and industry. While agriculture is the most important raw-material supplier for many of our industries, industry in turn can supply more of the requisite inputs and implements needed by agriculture. But there must be a greater communication between the two sectors than at present. Also, it is necessary that the disparities at the levels of economic operation and earnings are minimised so as to bring about mutually supporting growth at an accelerated pace. Towards effectively implementing an action-oriented programme, the Government should associate representatives of industry and business in all their programmes of agricultural development. Such programmes should be initiated by industry too, and the Government must not only encourage the industry in this regard but also make available part of the funds specially being raised from industry for agricultural development. One of the primary needs of the farmer, is adequate medium and long-term credit. Land mortgage banks and the State Bank of India have not been able to meet fully the credit needs of agriculture. For various reasons, the funds available under the agricultural refinance schemes have not been fully utilised. Credit flowing through Co-operatives is mostly lost in the pipe-lines. There is, therefore, need for expanding the activities of the State Bank of India, and other commercial banks also should enter the field. Industry should think of providing short- and medium-term credit to the farmer for the purchase of implements and inputs. The Federation has also expressed its grave concern at the growing uncertain conditions on the social and economic fronts. The economy is run down because of wrong economic policies and the economic difficulties created by inflationary pressure, mounting cost of living, high prices and heavy burden of taxation, both direct and indirect, have brought about a feeling of frustration among the people. There is a growing tendency to settle 'issues' by a show of force and there are numerous incidents of vandalism, loot and arson, and destruction of property. The Federation is of the view that all-out efforts have to be made to restore the confidence in and respect for the rule of law in the country. With this end in view, it emphasises the need for the Government to take all steps necessary to maintain law and order as a prerequisite for ensuring social and economic stability. The federation is convinced that the Government will have the fullest support of the people in the steps that might be taken to put down lawlessness with a heavy hand.

The successive lean agricultural years and the prevalence of drought conditions in several parts of the country have served to emphasise the aspects of food supplies leading to wide-spread agony of the common man. The food shortage has emerged not only because of shortfall in production but also because of barriers in the system of distribution. The country has been broken up into zones which has given rise to pockets of surpluses and deficits. The Federation wants the authorities to do away with the zonal system and to utilise normal trade channels for economic and efficient distribution. As a step in the direction of easing the difficulties on the economic front, the federation urges the Government to adopt

programmes and policies calculated to remove the basic cause of discontent in the economic sphere and to inculcate in the people a sense of discipline and evoke in them enthusiasm for hard work and increased production in all spheres of economic activity. The federation recommends, in particular, action in the following direction for bringing about a significant improvement in the prevailing economic situation and thereby reduce pressures and rising prices:

1. A substantial increase in agricultural and industrial production and productivity.
2. Progressive policy of decontrol. Review of the taxation measures with a view to reducing the incidence of taxation at all levels.
3. The full utilisation of normal trade channels in both the internal and external trade of the country.
4. Eschewing deficit financing and adoption of rigorous discipline both at the Centre and the State levels in respect of non-Plan non-development expenditure.
5. Encouraging effort at furthering and augmenting industrial production on the basis of efficiency and costs and not on the basis of any preconceived notion regarding the relative roles of the public and private sectors.
6. Revival of the capital market through appropriate refashioning of the fiscal, monetary and credit policies calculated to generate saving and investments and provision of adequate finance for industries.
7. Formulation of programmes of development, keeping in view the availability of resources and ensuring their efficient implementation (as also strict avoidance of unproductive expenditure).
8. Promotion of exports through appropriate measures designed to increase the competitiveness of the export products in overseas markets; and the implementation of programmes for popularising family planning.

In regard to planning and administration, the federation says that the experience of the last three plans has belied these expectations. While each successive plan has grown in size financially, the achievements in physical terms have been far from adequate. This has led to many problems in our national life and hardship to the people. In recent months, there has been anxious public discussions not only about the size of the Fourth Plan, but also as regards the extent of planning and the manner of implementation. It is argued, with reason, that the shortfalls in achievements are not entirely due to unexpected natural calamities or other extraneous factors. The Federation also has been emphasising the need to make planning practicable and its implementation effective. In the opinion of the Federation, there are quite a few drawbacks which must receive urgent attention and rectification. There is not enough informed and practical thinking in the framing of the plans. Consequently, plans have just tended to become a mere mechanical exercise and failed to fully recognise the nature of problems. The

authorities, both at the Centre and in the States, who endorsed the plans and took upon themselves far too many tasks, did not evolve effective machinery or procedures for putting through in time and at reasonable cost, their development programmes. While financial resources in excess of targets were raised, they got expended on non-plan and non-developmental items. On the other hand, the private sector has been subjected to regulations in detail and denied an environment to raise their own funds or speedily move forward. It is inevitable, therefore, that the country's problems have grown in dimension and we have reached a stage when the vital issue is not so much of accelerated growth as of economic recovery.

If planning has to be successful, the first requisite is that all productive forces must be energised. Simultaneously, it is necessary to design the actual plans themselves in a way as would achieve better physical results rather than merely emphasise financial targets. Another 'must' is the improvement in administration, a subject which is now under the consideration of the Administrative Reforms Commission.

The federation has also reiterated its firm conviction that the contribution of the normal trade channels to the health of the economy is as vital as that of the producers in agricultural and industrial fields. Those in trade serve as important links between producers and consumers in India and abroad. Even in internal trade, their utility can be gauged in relation to the very size and terrain of our country, the growing number of consumers and increasingly diversified production. However, there is an unfortunate tendency to distrust and to replace normal trade channels.

Not only the State Trading Corporation and Minerals and Metals Trading Corporation have been extending their activities on the foreign trade front, in domestic trade too, newer organisations like the Food Corporation of India, State Supported Co-operative Stores and super bazars are being set up. Further, there is a move to canalise distribution of some manufactures through Government agencies. Above all, what is most distressing is that there is almost a continuous tirade against traders. The blame is placed at their doors for any rise in prices, although the basic reasons for such rise have to be found in the Government's own economic policy, restrictions placed on the free movement on goods and other control measures. When this tirade is supplemented by sudden and punitive action even for alleged procedural irregularities, the trading community is reduced to abject misery and humiliation. This is far from fair, apart from offending the fundamental principles of natural justice. The Federation has urged the authorities to revise their approach to the traders and enlist their co-operation, experience and experitise, instead of viewing them with suspicion or denigrating their role.

WHOLESALE PRICES BEHAVIOUR

THE GENERAL level of prices in India rose by more than 7 per cent in 1965. Compared to the sharp upward swing in prices witnessed in 1964, this increase, however, seems moderate. The all-India index of wholesale prices rose by 7.2 per cent in

1965, against 17.2 per cent in 1964. The official index, which stood at 134.9 in December 1963, rose to 158.2 in December 1964 and to 169.6 in December 1965. In the first quarter of 1965, the general price level actually receded by more than 5 per cent, the index having declined from 159.4 in January to 151.5 in March. In the remaining nine months of the year, the index showed an overall increase of about 12 per cent. However, in the crucial months of August-October, when the country was facing the grave border crisis, prices showed a remarkable balance and even allowed the seasonal downward pressure to assert itself. The index, which stood at 166.9 in August, came down to 166 in September and further down to 165.6 in October. The relatively moderate rise in the general price level in 1965 is attributed partly to the bumper food harvest of 1964-65 which had its impact throughout 1965 and did not let the prices sky-rocket despite the widespread drought in the later part of the year.

The various measures taken by the Government to control food prices since early 1965 have had a salutary effect on food prices in particular, and other prices in general. Compared to the increase of about 22 per cent, the combined index for food articles rose by only 4.3 per cent in 1965. The separate index for cereals in 1965 increased by 6.8 per cent, but that for pulses showed a sharp decline of more than 14 per cent. The absolute decline in the index for pulses is remarkable in view of the fact that in 1964 it showed a very high increase of more than 60 per cent. The index for cereals in 1964 had risen by 21 per cent.

The index for industrial raw materials also recorded a relatively smaller increase of 16.6 per cent in 1965, compared to the 23 per cent increase in the previous year. But despite an overall retardation in the pace of prices, the index for manufactures rose by 8.4 per cent in 1965 which compares with the 17.2 per cent increase in 1964, just corresponding to the increase registered in 1963. But in earlier years, the increases registered were still smaller.

The official index of wholesale prices, available up to the end of March, shows an increase of 18 per cent in 1966-67, the first year of the Fourth Plan, against 17 per cent in 1965-66. The normal annual increase in prices assumed by the Planning Commission as a result of development expenditure is three to four per cent. Since the official index relates only to wholesale prices and excludes serveral important commodities and services, the actual rise in the cost of living in 1966-67 would be more than 18 per cent. The wholesale index (taken at 100 in the base year 1952-53) crossed the 200 mark for the first time in February when it touched 202.8. In March it rose further to 203.2.

MAN-MADE CALAMITIES STALK THE LAND

An extraordinary situation demands extraordinary measures. This is the time for action, not words. In one word India is today politically and economically a quagmire. It would serve no purpose to beat about the bush. What is wanted *here and now* is the adoption of a war footing and a moratorium on several fronts *for the duration*. It is only a bankrupt psychology that yearns after spending what

it cannot earn, borrow or beg: stealing is impossible internationally speaking (except by raids and piracy).

A District Medical Officer reported that there was no malaria in his district, because the hospitals in his charge treated no such cases. An Inspector General of Police reported that during the year under report, murders in the State were larger in number compared to the previous year. But that was due to better reporting: unreported cases are not recognised or registered. There is a multiplicity of records and returns which the village accountant and panchayat can understand little, implement much less. An I.C.S. Revenue Secretary once issued a detailed circular containing chapter and verse with regard to village administration, records and returns. In turn, the circular went to all Divisional Commissioners, all Collectors, all sub-Collectors, all Tahsildars and all Revenue Inspectors, the officer in each level circularising in turn with the remark 'for information and implementation'. From top to bottom, responsibility for implementation was shoved on the lower officer. The revenue inspector made adequate number of copies by hand and distributed them among the village panchayats. The village panchayats received them very respectfully and recorded them. The tragedy occurred when the Revenue Secretary inspected a village and saw his circular quite safe in cold storage.

There was a proposal that the office hours should be limited to 4 a day, from 10 a.m. to 2 p.m. on the understanding that the staff should concentrate on their work during this shorter period against the advantage of having a good portion of the afternoon for domestic work, sports, social functions, etc. But actually, office hours range over 6 hours and it is common knowledge that the officer or the clerk does not really work even for 3 hours—what with visits to friends in neighbouring departments, canteens, and reading light literature.

There is a world of difference between the roadside and the interior villages. In the latter case (quite a high majority), it is all a vacuum. It is against this vacuum that Central and State Ministeries and Departments prepare and direct their orders and schemes, tacitly and uniformly assuming that their instructions would be carried out one hundred per cent, on the spot, with full loyalty. Alas, the comparative absence of reaction from the villages has not been realised even now by the well meaning but illusioned officials. Recently, there was a conference on rat killing, resolutions were passed and forwarded, but the villager has his own (and superior) plans for doing away with rats! The following eight reforms contemplated by the Planning Commission for augmenting agricultural production comprise nice arguments, but who is to bell the cat?:

1. Special programmes for full utilisation of the irrigation potential that has already been created:
2. Linking up of minor irrigation with rural electrification:
3. Use of high-yielding new seed varieties like hybrid maize, hybrid millets, Taichung paddy and Mexican wheat on 32.5 million acres with a reasonably assured supply of water:

4. Three-fold increase in the use of chemical fertilisers, taking it to two million tons of Nitrogen, one million tons of superphosphate, and 7,50,000 tons of potassic acid at the close of the plan period:
5. Incentive prices for farmers:
6. Linking of credit with production requirements rather than with ownership of land:
7. Better co-ordination between different government departments operationally concerned with different aspects of agricultural production; and
8. More effective securing of public co-operation through the involvement of panchayati raj or local self-government institutions in agricultural production.

A basic impediment against long range planning in India is the comparative absence of standardisation, natural and social. Abnormalities with regard to rains, floods and droughts are normal, occurring in some part of the country or other every year. Countries like Japan, East Pakistan and Indonesia suffer from more frequent distructive natural calamities like typhoons, earthquakes, floods etc., but they have succeed in braving them. There is no method about rainfall, widely varying as among even adjacent localities, in quantity, in timeliness and in duration. The soils are equally varied. In spite of scientific development, a high percentage of seed is low grade and mixed, with the result that standardisation and gradation of crops is proving very difficult except in the case of a few crops like jute, cotton, wheat, tea and coffee. The sum total of all this is that there arises a wide gap between sanctioned outlays, inputs and outputs. It is a matter for serious consideration as to how far planning as such in India has brought about improvements in standardisation, over and above what would have been achieved without planning. In other words, the major wheat growing countries in the world achieved astounding results mainly on the basis of standardisation and mechanisation.

Cases of lack of integrity in several Central and State Ministers are only too recent to be forgotten. The Public Accounts Committee of the Central Legislature has brought to light numerous cases of irregularities. Income tax dodgers are hunted after among the lower ranks, but allowed free play among millionaires. A prominent working committee member of the Indian National Congress asserted his claim for collecting his election expenses from big industrial concerns, only last year. The fortunes and misfortunes of Dharma Teja are another example of the Government of India winking at adventurism and opportunism.

Government resolutions and assertions with little truth about them have been in plenty. They seem to rely on the impossibility of verification and the lack of interest in the general public, while indulging in such 'fairy tales' almost every other week. Improved seed, wide-spread credit, distribution of fertilisers, extent of additional irrigated area under minor irrigation works, all these if added together

during 12 month period, from among PTI and UNI press telegrams, should make up much more than the Fourth Plan targets! It is highly distasteful that even senior Ministers indulge in 'white lies', and the previous Food Minister justified himself in resorting to them, openly at a recent meeting. The Indian Prime Minister feelingly declared that she would not allow a single person in India to die of starvation, but newspapers have reported hundreds of cases of whole families committing suicide with Follidol, due to want of food. World opinion is vehement. According to the *Financial Times* (4th November 1966):

> 'It is said that at least 48 million people in Bihar, out of a total of 52.5 million, are unable to find food, fodder and water, and there are reports of villagers eating cooked grass, casting away children and committing suicide'.

Adulteration of foodstuffs has become a fine art. Factories produce small stones added to foodgrains for increasing weight. Cardamom and cloves are squeezed out and the oilless stuff is marketed. In many cases milk and butter can hardly be had one hundred per cent pure. Prices announced by the All-India Radio are quite different from the actual market prices. Almost every big provision shop has unauthorised and undeclared hoards. The authorities know them, but pursue a policy of 'let sleeping dogs lie'.

Of late, *Sadachara Samities* and vigilance commissioners have been appointed, but they have not been able to tackle even a fringe of the problems.

As the *New York Times* put it, 'days of absolute non-alignment are over on account of the growing tolerance between the two power *blocs*'. France and China are moving at tangent, and Dr Sukarno has retired. Particularly during the Indo-Pak fiasco, neither President Tito nor President Nasser was able even to sympathise boldly with India. The fact is that India is doubly aligned, what with U.S. and U.S.S.R. aid and aftermath and further more, the potential nuclear protection which she is anxious to have and which can be only had from the U.S., U.S.S.R. or U.K.! It is this isolationist attitude made apparent by India that has brought about all round a lower level of enthusiasm and sympathy, particularly in the Aid India Club, the promised aid for 1967-69 thus hanging in the air partially. It is easy to talk of independent decisions but even as between U.K. and U.S.A., there are numerous instances of give and take. While there is the general atmosphere of concern for the developing nations by the U.N., the World Bank, the I.M.F. etc., it is an open secret that the industrial nations are not willing to offer even one per cent of their National Income as aid: U.S. has been liberal, but the aid has been only 0.6 per cent so far. During the 15 year Plan period, India has borrowed from abroad several billions of dollars on project and non-project aid but the time has come when the gestation period is not yet complete in several projects, but interest and principal have got to be paid. In 1964-65, debt service charges amounted to Rs 186 crores while for 1966-67 the bill would total upto Rs 326 crores (devaluation adding to the burden). For the Fourth Plan period as a whole, the debt servicing charges are reckoned at Rs 2,284 crores. They will

constitute 16 per cent of our total payments envisaged and 28.4 per cent of the anticipated export earnings. It is noteworthy that upto date, U.S. commitments in India add upto Rs 5,464.1 crores (U.S. $ 7285.5 million).

Pathetically, '14 carat jewellery' (now repealed) proved much less a downfall than the devaluation of the rupee which is quoted even much lower in the market. During the Second World War, Dr Schacht declared that 'next to winning the war, the purchasing power of the mark is sacrosanct'. The strength of sterling is uppermost in the minds of the British Government and the U.S. Government is nonetheless adamant about sustaining the dollar in spite of suggestions to the contrary by the World Bank and European financing houses. The Indian index of wholesale prices is sheer propaganda statistics, ignoring free market and black market quotations, basing itself predominantly on ration prices and cheap grain shop prices which are not effective even to the extent of 5 per cent. Between 1958 and 1965, U.K. retail prices rose on the average by 2.3 per cent per annum and the compulsory freeze on incomes and prices has been enforced by the labour government, although smelling red. The runaway prices in India may not be so hopeless as in Indonesia, but the difference is only as between the frying pan and the fire. Dr Schacht laid down the following dictum:

'WAGE-STOP: COST-STOP: PRICE STOP'

THIS METHOD worked very well during the last war both in Germany and in the U.K., but nowadays in India, pay commissions and wage boards have been responsible for steep rises in salaries and wages, in turn boosting consumer demand and further raising prices giving birth to additional pay commissions and wage boards. The contribution by deficit finance to this sky rocketing of prices has not been small. It assumed dangerous dimensions 1960-61 onwards. According to published figures, deficit financing was Rs 532 crores during the First Plan, Rs 948 crores during the Second Plan and Rs 1,150 crores during the Third Plan period (against a target of Rs 550 crores). The Draft Fourth Plan holds out a promise that there would be no deficit financing during the Fourth Plan, but actually during 1966-67, deficit finance may amount to Rs 400 crores. Thus, pay commissions and wage boards, exploding population and deficit financing comprise muffled orchestra for the abulance march.

Taking Central and State expenditure together, over all and the plan separately, the ratio works at about 50 per cent, allowing reasonable margin for the internal depreciation of the rupee during the Fourth Plan period. It may be remembered here that the First Plan was an assemblage of projects already on hand in 1950-51. But for the Fourth Plan, there is a serious tug-of-war as among objectives, targets, resources and techniques. Even the Bell Mission has suggested, in view of the over-ambitious targets, the Fourth Plan might be spread over 7 years, but the behaviour of prices during the 7 year period could not by any means be estimated even approximately, judging from the experience during the last 5 years. After all, the actual executors of the plan are the same Government Servants and Executives there being no separate plan staff for every project or

policy. Under a standstill arrangement, the work of the Planning Commission should be confined to surveys, scrutiny and periodical evaluation for at least 3 years. The distinction between plan and non-plan expenditure has been mostly academic, there being here and there some *post mortem* criticism. In this arrangement, the central and state cabinets should be able to function quickly and boldly. The newly reconstituted planning commission has wisely fixed the Fourth plan to begin from 1969, the intervening 2-3 years covered by Annual Plans.

Neither in U.K. nor in U.S.A., the Five Year Plan idea is popular. In U.K., the National Incomes Commission was abolished after a few years and the recently established National Council for Economic Development did put forth a 7 year Plan for raising the national income by about 30 per cent. But all that activity is now silent in view of the income and price freeze. In the words of the *Financial Times*, dated 20-10-1966, that country 'should be more than pleased to realise anything better than 1 per cent increase per annum in the national income' (M. H. Fisher). In the U.S.A., 2 per cent per annum at constant prices is generally considered quite satisfactory, but nobody seriously discusses policy and figures with regard to 3 years hence or 5 years hence. This is the case even though the prices in the two countries have been comparatively very steady. But India (with a democratic set-up), imitating the U.S.S.R. (with a communist background), wants to launch a Fourth Five Year Plan with no idea of where our legs are with regard to prices and resources. Democratic Socialism is neither the invention nor the monopoly of India: it has been widely and progressively practised in countries like the U.S.A., Japan, U.K. and West Germany, but the highly advanced socialist outlook in those countries has little connection with long range planning.

Everybody knows that the state governments are growing more and more irresponsible, developing a spoon feeding tendency, the State legislatures and cabinets functioning mostly as dummies. *For the duration*, why not have a unitary government with adequate powers so that all the hundreds of Delhi trips and controversies as between the Centre and the States might be put an end to? There have been scores of cases of State Finance Ministers simply echoing dictates from Delhi. Finding themselves unable, State Governments have been asking the centre to take over, for construction and completion, hydel works exceeding Rs 10 crores capital outlay. There was a proposal to slash the Fourth Plan by Rs 2,000 crores, Rs 1,000 crores in the case of State Plans. But the Mysore Government wanted the State Plan at Rs 450 crores, urging the Centre to add Rs 80 crores to the agreed subvention of Rs 185 crores. 'Other things being equal' may be contemplated on the experimental table. But in actual practice in India, the three main postulates are, namely:

1. That foreign aid of the order of Rs 6,300 crores will be forthcoming including Rs 2,284 crores needed for meeting debt servicing charges,
2. That commodity production and national income will rise during the Fourth Plan period to the extent indicated by the targets, and

3. That the price level will be held during the Fourth Plan period and that economies of the order envisaged will be effected in non-plan expenditure.

On all these 3 counts, we are not even 25 per cent confident and it would be commonsense to declare 'no game' instead of pinning hopes on a losing game.

The annual growth rate during the first plan was 2.7 per cent, during the Second Plan 3.9 per cent, but during the first four years of the Third Plan, it went down to 2.7 per cent. And yet, the Fourth Plan poets put the growth target at 5.5 (compound rate) between 1966-67 and 1970-71! It is true that outlay on agriculture has been substantially switched up, but there is all the difference between paper outlay and actual inputs. With regard to resources, it is literally a *kavi sammelan* (gathering of poets), proposing to indulge in unfettered use of 'the wonderful lamp'. In 1964-65, production went down to 72.3 million tons against the projected 90 million tons. The scarcity was tided over with previous stocks and heavier imports. During 1966-67, the projected crop is 95 million tons. But actually it may go down to between 80 and 82 million tons. But the mirage for 1970-71 has been put at 120 million tons, providing for an increase of 48 million tons during 5 years, or an average annual increase of nearly 10 million tons of food grains! Such swan songs should not find a place either in the Ivory Tower or in Yojana Bhavan. Heavy industrial targets like that of steel should be postponed in view of foreign aid prospects being dim, and on principles of priority.

Statistically speaking, the draft Fourth Plan is a confusing document. Originally, an outlay of Rs 21,500 crores was foreshadowed at 1963-64 prices, but the revised plan (after devaluation) puts it 'at Rs 23,750 crores at June 1966 prices'. The Commission have adopted 1964-65 or the fourth year of the Third Plan as the base for their Fourth Plan calculation of growth. This is a conglomeration beyond understanding. How was the purchasing power of the rupee in 1964-65 converted to the June 1966 index is not known. The figure with regard to the national income has been worked at 1960-61 prices as base while the index of wholesale prices is based on 1952-53 at 100. To enable a comparative study of the Four Plans, it would have been helpful if 1948-49 had been continued as base. Separate tables have been given with that base.

Considerable improvement in the manufacture of producer goods has been achieved, but the financial and social cost has been disproportionately heavy. We began closely on the Russian Model by concentrating on heavy industries, expecting the average citizen to tighten his belt for the time being, forgetting for the moment that it is all a skeleton not admitting of any further tightening. If only agriculture had been properly attended to, our domestic and foreign solvency should have been satisfactory by now. Several other* cross-currents and counter-currents were given undue weight like land reforms, mixed economy and

*Linguistic reorganisation of states and border disputes even after ten years of reorganisation, the official language squabble, river water controversies, provincial rivalries with regard to location of industries and parochial animosities encouraged by non-official militant bodies like *shivasena*, *nagasena* and *basavasena* are additional movements working at a tangent.

prohibition which, if anything, weakened our resources and complicated social harmony.

We cannot invest according to our *needs* with insufficient resources at our command. *For the duration*, it is absolutely necessary that all projects proposed or under construction, which involve Rs 10 crores or more each, should be postponed without any reference to priorities except fertilizer plants. Below that dividing line, joint ventures and small scale concerns can organise themselves and add to production. Not only the fifth steel plant, but even the fourth (Bokaro) should be dropped for the present. Bokaro is expected to cost Rs 671 crores. The Soviets can understand our difficulties. The additional advantage would be the saving of funds which are being frittered away on all kinds of projects—Central, State and private.

The price line, like the proverbial 'pudding', is made by a thousand hands. There are 3 varieties of price policy—positive, neutral and lame-duck. In the first category, stability of wages and costs of production is ensured through subsidies, concessions, bilateral agreements, etc. so that the pretext of a soaring price line cannot be put forward by the workers. With regard to neutral price policy, the free market operates effectively, the price line being determined by the inter action of the forces of demand and supply. On the supply side, indigenous production and imports count on the positive side while exports diminish the supply. On the demand side, the factors at work are the population increase and the rise in the standard of living among the workers. In between, restrictive institutions and practices like monopolies, hoarding, black marketing (even in permits and licences), controls and the general distributive machinery exert great influence on the price line.

What we are having in India is a lame-duck price policy with no foresight, no stamina and no practical measures, frequently interfering with and impeding normal developments, and on top of it all, claiming 'to hold the price line'. It would have been interesting to count the number of occasions during the last 3 years in the course of which the Prime Minister, the Finance Minister and the Food Minister acclaimed their determination 'to hold the price line', but surely, the declarations were made in Parliament and outside, more than 200 times, and yet, the general wholesale price index, the food articles index and the working class cost of living index have all shown a runaway trend, as is obvious from the figures given in an earlier chapter. Such an extraordinary divergence between declarations and actual developments redounds little credit to the integrity and responsibility of the Government Benches, and to the understanding and judgement of the nation. One cannot resist the feeling that the concerned Ministers richly deserve strong and continuous doses of Elixir Bromide with a view to bring about normal or near-normal sobriety!

It is impossible to list all the basic errors or sins we committed during the last 10 years, resulting in the present predicament of galloping inflation. But a few samples should clarify the lame-duck policy in force. Hundreds of crores of rupees were wasted on displaced persons from Pakistan, simply to satisfy sentiment,

ignoring the high priority which the poorest sections of the community in India deserved. The welcome to Dalai Lama brought in its train the displeasure and suspicion of China, and the green signal given to Tibetan Refugees added to our liabilities on account of population explosion. On Kashmir, a vacillating policy on 'Azad Kashmir' led to Pakistan's persistent protests and complaints: if only Sardar Vallabhai Patel had lived a year or two longer, the Kashmir issue should have been finally closed by the liberation of 'Azad Kashmir'. The so-called 'non-aligned' policy has alienated the genuine sympathy and co-operation of the United States which single country has done incomparably much more to India than any other country in the shape of grants, long term loans at low interest rates, and supply of Agricultural Commodities including foodgrains under Public Laws 480 and 665. But, we have not been slow in exhibiting our sense of economic independence and indifference in relation to that country by hugging to the non-aligned tripartite meeting at Delhi just about the time President Johnson was busy at the Manila Conference. At the moment, we are in dire need of food and aid, but on both these counts, the U.A.R. and Yugoslavia cannot deliver the goods even to the extent of 5 per cent of our needs. It is no surprise therefore that there is a fundamental change in the U.S. 'Food for Peace' programme so far as India is concerned, within the span of a few months, we have been asked to 'shop elsewhere'! Private enterprise has been subjected to vexatious, time-consuming and redundant formalities: at every turn, there is the permit spectre: it is no surprise that the Central Government is jocularly referred to as 'Permit Raj'. Quite recently, there has been a change for the better, but even now, the relation between the Government and industry resembles that of the idle and arrogant mother-in-law and the well-meaning docile daughter-in-law. Agricultural production has been hit not only by droughts and floods, but to a greater extent by the high-sounding 'Land Reforms' which have led to the flight of enterprise from agriculture.

In the U.S.A., as shown in a later paragraph, the trend is towards longer hours of work per week, but here in India, the authorities themselves encourage shorter hours, paid holidays and grant of bonus—with no reference to the quantum of production and 'what the traffic can bear'. Under the Shops and Establishments Act, even a proprietary shop should close one day in the week, even where there is not a single employee and business runs at a loss! Even in the U.S.A., labour buying shares in the employing Company, is a natural process, but in this country, labour-management co-operation has been blessed by the authorities, and the consequences is the development of a fighting mood amongst workers.

All this leads to the central theme: supplies are small, demand is big, and a lame-duck price policy has stimulated hoarding, black-marketing and adulteration. This sorry state of affairs should have been frankly admitted and recognised by the Government, but on the other hand, we find the authorities freely and unashamedly resorting to smoke screens and window dressing! The most abominable characteristic of the Planning Commission has been the evolution of schemes, projects and targets based on *needs, not resources*. In other words, it is impossible to understand how and why the Planning Commission has taken it for granted that

domestic taxation and savings and external assistance would be had for the asking or by pressing a button! The latest example is of Bokaro involving an outlay of more than Rs 671 crores, the fertiliser needs of the country accorded a second place although costing much less and capable of reducing the foodgrains deficit.

Even after Independence, we have developed the bad habit of procrastinating solutions of problems by reference to any number of Boards, Councils, Seminars and Conferences—each in turn satisfying itself by appointing after some talks quite a batallion of committees, sub-committees, cells and panels. The strategy consists of resolutions and opinions passed by these bodies in reverse order, and finally arrives the stage of wagon-loads of platitudes most of which verge on bathos! It would constitute a bulky volume if such resolutions were all put together, but a few samples should suffice to bring home their ludicrous features:

(*a*) 'Agricultural Development is quite necessary for the progress of the nation'. 'Indian agriculture should change from traditional to scientific methods' (Sri C. Subramanyam). Did it require the ex-Food Minister more than 10 years to understand and preach this elementary truth which is of the same order as 'the Sun rises in the East'?

(*b*) 'Minor irrigation schemes must be implemented quickly'. Is it true that such minor irrigation works, rather their importance, had been forgotten or belittled during the last eighteen years?

(*c*) 'Agricultural credit should be linked to production schemes, not to ownership of land'. This idea was sanctified about 15 years ago by the Rural Credit Survey and shall we take it that we have been simply humming the song these long 16 Plan years?

(*d*) 'Agricultural land should belong to the tiller of the soil: no intermediaries between the actual tiller and the State'. This reform was accepted more than 15 years ago, but a high proportion of tiny farms which have come into being, have little capital and less brains. Really, this has been the main cause for depressed agricultural production, in addition to droughts and floods which are normal occurrences every year in some part of the country or another. The incidence of cyclones, floods and earthquakes is much more in Japan annually than in India. And yet, the relevant Panel has just come out with a disappointed psychology, observing that approved land reforms had not been implemented loyally, or enforced to a small extent, once again calling for quick and effective action.

(*e*) 'Co-operative Farms should be started and run according to Plan'. According to Gomulka (Poland), Co-operation and 'according to plan' are contradictions in terms—the former intending a 'may', the latter insisting on a 'must'. So much so, it is all a series of memoranda and reviews emanating from the Centre, each state taking its own time to swallow or chew the bitter pill!

(*f*) 'Self-sufficiency in food must be attained by 1970-71'. In 1956, only 10 years ago, the then Food Minister announced to his fellow countrymen

and other nations that we had permanently attained the glorious stage of self-sufficiency in food! For reasons cited elsewhere, agricultural production went on sagging, the authorities comforting themselves with the help of manipulated statistics, pious resolutions and baseless hopes. The climax has come in 1966-67 when the target is 95 million tons of foodgrains, the actual out-turn expected to stand at about 80 million tons! The Planning Commission is however possessed of much more imagination and verbosity than poets and novelists, and placed the 1970-71 target at 120 million tons, which would involve an annual average increase of 10 million tons per annum—between 72 million tons in 1965-66 and the Valhalla of 120 million tons by 1970-71!

(*g*) 'Social Control should be universalised without reference to the pet concept of a mixed economy'. Shall we take it that the party in power is ignorant of the degree of social control actually operating in capitalist countries like the U.S.A. and U.K.? Relevant figures are given in paragraphs *infra*, but it is a hard fact that even a single tanker or a wheat-ship cannot leave the U.S.A. without the express permission of the White House which lays down its own conditions with regard to price, shipping freight and export programme. The Income and Price Freeze in U.K. was recommended by a labour government and the British Trade Union Congress recently endorsed this big step of social control which the Government of India was afraid of, and incapable of promulgation and implementation before going to the midnight back door acceptance of devaluation of the rupee. What do we do here? Yesterday it was a shout for nationalising banks. Today it is for nationalising the cotton textile industry. Tomorrow it may be for nationalising newspapers!

The data presented below must convince anybody of the fact that while in the U.S.A. and U.K., positive policies are pursued and basic facts accurately analysed and presented, here in India, the lame-duck policy has grossly weakened the country's economy, and with regard to available economic data, we are literally dangling in mid-air!

The labour force comprises 80.549 million in the U.S.A., 25.138 million in U.K., while in India we have no figures. Taking the present population at 500 million and assuming that 2 persons out of 5 in every average family are fit for gainful employment, the labour force works at about 200 million! Of course, every body knows that we are rich in numbers, but very poor in quality and utilisation.

Where ignorance is bliss, it is folly to be wise. In the U.S.A., unemployment was highest at 4.806 million in 1961 and lowest at 2.834 million in February, 1966, yielding an annual average diminishing rate of 1,49,000 unemployed persons. In the U.K., unemployment stood at 0.379 million in 1959 and came down to 0.270 million in 1965, the diminution working at the annual average rate of 18,000. In India, we have no figure with regard to unemployment or under-employment.

The draft Fourth Plan estimates the back-log of unemployment at the beginning of the Fourth Plan at 15-17 million: by 1970-71 the figure may be anybody's guess.

In the U.S.A., average weekly hours of work went down from 41.1 in August 1965 to 40.3 in August 1966! No figures are available with regard to U.K. and India. This much is known about India, namely, the Government itself connives at shorter hours and more holidays for industrial workers—the productivity councils praising the cult of more and still more productivity!

In the U.S.A., weekly wages of production workers in manufacturing industries rose from $ 106.45 in August 1965 to $ 111.10 in August 1966, revealing an addition of 4.5 per cent approximately. In U.K., average weekly earnings of workers rose from 301 Sh. 4 d. in 1961 to 378 Sh. 2 d. in 1965, the increase of 19 Sh. 2 d. yielding an average annual increase of 6.25 per cent. For India, the latest statistics available are for 1961. The table reproduced below shows how the index of weekly earnings went down from 134 in 1957 to 128 in 1961:

TABLE 10

INDEX OF REAL EARNINGS OF WORKERS: INDIA

Item	*1957*	*1960*	*1961*
General Index of earnings	170	183	184
All India working class consumer price index	128	143	145
Index of real earnings	134	129	128

The range of annual earnings of factory workers in India was between Rs 727 in Rajasthan and Rs 1,583 in Gujarat in 1961.

In the U.S.A., with 1957-59 as base, the general index rose from 100.4 in 1958 to 106.4 in July 1966, working at 0.75 point increase per annum. The food articles index rose from 103.6 in 1958 to 107.6 in July 1966 working at an average annual increase of 0.5 point. The range of variations is highest in the case of hides etc., at 122.8, the lowest in the case of rubber etc. at 95.1 in July 1966. The high degree of stability in prices in that country is obvious. In U.K., there are no figures with regard to wholesale prices, and retail prices should find a place in the consumer index. The shooting up of the Indian wholesale price index (all commodities and food articles) in the course of 1966 has been shown at the annual rate of 18 points and 30.9 respectively (table 5 *supra*) and yet, our leaders emphatically affirm that they are 'holding the price line'! From 0.75 in the U.S.A. to 18.0 (annual average increase in points) in India is too much of a high jump. From 1.17 in the U.S.A. (farm products) to 30.9 in India (annual average increase in points) reminds one of a jump to the Moon!

In the U.S.A., with 1957-59 as base, the general consumer cost of living index rose to 113.3 in July 1966, yielding the annual average increase of 2.05 points, food articles showing 2.2, 'medical care' standing at 127.7, 'furnishing and operation' showing 105.1. It is no surprise that comparatively speaking there is a wage freeze

and therefore a cost freeze and a price freeze on a voluntary basis in the U.S.A., although the Government there anticipates inflation and has already taken up disinflationary measures. In U.K., retail prices show the same trend of stability. Between 1958 and 1965, retail prices showed an annual average increase of 2.3 points. In India, the index was 190 (all India) working at annual average increase of 36 points in 1966! This compares very unfavourably with the never-ending international tours into and from India, and the almost daily wastage of lakhs of rupees on entertaining guests and holding conferences.

Thus, the main characteristics of the present Indian economy are lack of imagination, purposefulness, integrity and vigour. It is true that this country has achieved considerable progress in many directions during the last 16 years, but opinion is divided as to whether the improvements would have accrued in the normal course or whether they have been mainly due to the Planning. Few can differ from the opinion that, whatever might be the reasons, India has developed a situation in which a 'standstill' policy is urgently called for with regard to domestic taxation, foreign aid and economic planning. In all these three cases, movement has been too fast, and the country sorely needs circumspection and consolidation ranging over a period of at least 3 years, rather than contiguous and cumulative expansion. The U.K. surcharge on imports and the income and price freeze may be too drastic for the huge and undisciplined Indian population, but it would serve good purpose to 'stop-go' as in the U.K. on more taxation, 'more aid to end aid' and further Planning. The general standard of life among the masses has really gone down definitely, and the prestige of India abroad has suffered on account of too ambitious targets and too sweeping demands for more taxation and more foreign aid. Attention should be confined to spill-over projects from the Third Plan, and new projects (proposed or just started) costing more than Rs 10 crores each, should be deferred, except in the case of the fertiliser industry. Further for the purpose of efficient construction and completion, all State projects in progress costing over Rs 10 crores, should be taken over by the Centre. We have been attaching too much importance to fundamental research, ignoring applied aspects and the result has been the pathetic step of importing specially evolved seeds and special processes from countries like the Philippines and Japan, and the humiliating position of begging for foodgrains from abroad. It looks as though we slept during the last 17 years, to wake up to the realisation of the importance of the fertiliser industry in 1967!

GALLOPING INFLATION GALLOPS FASTER

The wage-price spiral assumed such menacing proportions in recent months that it is no longer realistic to view the problem in isolation or in a piecemeal fashion. The Central Government employees exceeding perhaps 2.5 million in number and bank employees numbering 80,000, who are the latest beneficiaries of substantial increases in dearness allowance and other emoluments, have obviously solid reason to be compensated for the fall in real incomes they have suffered in the recent past. But these two wage hikes, which would by themselves involve an additional payment

of Rs 38.5 crores, cannot but have profound repercussions on the wage policies of other sectors of the industrial economy and salaries in the State Governments. Several State Governments including Gujarat, Maharashtra, West Bengal, U.P., Rajasthan and Madras have already conceded sizable increases in dearness allowance, and a series of wage board awards in the past year has resulted in the assumption of higher burdens by rubber and tea plantations, and engineering and iron-ore industries, to mention only a few isolated instances. All this perhaps constitute only the beginning of a fresh bout of runaway inflation attributable to the unprecedented deficit financing of Rs 400 crores in 1965-66 and the devaluation plunge taken in June.

Even in the normal course, a fresh spiralling of wage levels in a high-cost economy would have far-reaching effects, but there are several ominous portents that make the outlook altogether depressing. Wholesale prices in the past year have risen by not less than 15 per cent. The Bombay consumer price index, which reflects the cost of living trends up to a point and with considerable time-lag, has also been rising at the rate of 15 per cent per annum, while the all-India index shows an even steeper increase—20 per cent per annum. Initially, it was anticipated that deficit financing in 1966-67 would be nominal. The Fourth Plan also held out the promise that this dubious practice of meeting budgetary deficits would be firmly eschewed. But latest reports suggest that the net deficit at the end of 1966-67 may exceed Rs 400 crores in spite of the economy measures announced earlier. To make matters worse, laggardly production seems to have adversely affected the flow of revenues; and judging by the figures for the first quarter of 1966-67, the chances are that the budgetary estimates of revenue may prove excessively optimistic.

Even if import liberalisation results in a general economic recovery, it will be quite some time before it makes itself felt on the production front and revenue begins to flow. But such liberalisation has been followed by considerable underutilisation of import licenses. In regard to agriculture, we were expecting at best a normal crop, but latest reports suggest that the drought in Bihar, U.P., Rajasthan and certain other States has been so grave as to render the food outlook once again obscure. All this naturally implies that national income, which showed a substantial set-back in 1965-66, may at its most optimistic view show a small increase in 1966-67. But from the point of view of immediate prospect, the most depressing feature is the continued upsurge in money supply. The expansion of money supply, which had been running at the rate of 9 per cent per annum, has shown no signs of levelling off; and it looks as though this would continue to be a dominating factor aggravating price inflation.

Surely we must admit that the economy is now groanig under the weight of all known elements of inflation—continued budgetary deficits, higher import costs and repayment burdens, unbridled monetary expansion, sluggish production trends, widespread shortages and above all, free-for-all pre-election atmosphere in which the various parties were only too willing to make political capital out of public misery, foment labour unrest, and flaunt wage demands regardless of national

capacity or interest. What is perhaps not being realised is that in the past 12 months alone, we have taken a succession of measures the cumulative effect of which will be to give a fresh lease to runaway inflation for at least another year. It is only in the measure in which we reverse shortsighted economic policies, halt the drift and apply the brake on monetary expansion that we can hope to bring inflation under control at least in the foreseeable future. To the extent that these steps are not matched by increased productivity, wage increases of the type we have witnessed in recent months are bound to be dissipated in consumption in a shortage-ridden economy.

With a much less serious inflationary menace, the U.K., for instance, has deemed it worthwhile to enforce unpopular measures of economic discipline at all levels. A more realistic adjustment of our Plan, more determined measures to cut unproductive expenditure and a greater measure of self-discipline, both on the part of industry and labour, have all assumed such urgency and relevance that they cannot wait for the golden days promised to be round the corner. To dither now and drift further would be to compound the distortions and imbalances in the economy and invite another and a graver financial crisis.

A SUGGESTED RE-ORGANISATION OF STATES

To achieve rapid economic growth, it is essential that division of the country into states be based mainly on considerations of geographic, economic and strategic factors instead of political and linguistic norms. A division of the country into nine States has been suggested, each approximately one lakh square miles with a population of 55 million, comprising the nine natural regions or by putting contiguous parts of different regions together, taking into account primarily economic, strategic and geographical factors. The nine regions are: Himalayan region, Jumna-Gangetic plain, central Plain of Northern India, lower level region of North-western India (including Kutch, and Saurashtra and northern districts of the old Bombay State north of Baroda), central plateau including Aravali and Vindhya ranges, Deccan plateau, low level region between central and Deccan plateaus, Western Ghats and coastal areas.

PUBLIC CO-OPERATION

The aspect of securing public co-operation and participation through voluntary organisations, educational institutions and other non-official agencies needs much greater attention. It is necessary to *harness* the time and energy and other resources of millions of people for constructive activities. There are certain national tasks, crucial to the development of the economy which can be executed only with the support of the people. Some of these are family planning, adult literacy, stepping up agricultural production, avoidance of wastage of food, increase in the rate of savings, checking the rise in prices, slum clearance and improvement, etc. The principal programmes are rural and urban *Lok Karya Kshetras*, planning *forums*, National Consumers' Service, research, training and pilot projects including the

Central Institute of Research and Training in Public Co-operation, construction service of voluntary organisations and prohibition. An allocation of Rs 10 crores has been provided in the Fourth Plan.

THE WONDERFUL LAMP PSYCHOLOGY

MYSORE OFFICIALS recently concluded their talks with working groups of the Planning Commission, but there is still a gap of Rs 80 crores between the proposed outlay and resources available for the State's Fourth Plan. The Central Government has indicated that it can offer assistance of the order of Rs 185 crores. With the State's own resources estimated to be Rs 185 crores, the total amount available will be Rs 370 crores. The Chief Minister is of the opinion that the Centre should offer greater assistance. In any case, he thought that the outlay of Rs 450 crores was the minimum the State could accept in the context of the State's urgent need for rapid growth. Discussions may not be conclusive but definite indications of the approximate size of the Plan will be available later. During the Third Plan period, Mysore spent Rs 248 crores on the Plan projects.

"FAIR PRICE SHOPS" UNFAIR WORKING

SEVERAL DEFECTS and malpractices in the working of fair price shops for foodgrains in the country have been highlighted by an expert study team in its report submitted to the Food Ministry recently. These defects are the result of inadequate Government supervision. There were also administrative lags in the selection of fair price shops. For instance, in Bihar, other factors like stronger political pulls seem to have been important in the selection of shops. Similarly, in Andhra Pradesh, good sales rather than the number of consumers attached to a particular shop was the criterion for selection. The team was set up some time back by the Ministry to review the working of the fair price shops for foodgrains, the pricing of the grains sold at the shops and to examine the general impact of these sales on the foodgrain market. It carried out field surveys through the agronomic research centres in various States, besides making inquiries from State Government officials. To most States, inspectoral and supervisory staff was insufficient even for normal times. The situation was further aggravated in the days of acute scarcity, when pressure on the administration was heavy. The frequency of inspection was much less in rural areas than in urban.

According to the Report, although the fair price shops were required to submit periodical returns of their stock and sales of foodgrains to the Government, in actual practice, the maintenance of records was not satisfactory. The shops usually kept only those books properly which were necessary for obtaining supplies from Government godowns. The rest of the records were neither maintained properly nor regularly. For instance, in Madhya Pradesh, the register for the months previous to the introduction of the card system was either missing or blank in many cases. In Maharashtra, the register of family identity cards was not maintained properly with up-to-date entries with the result that shopkeepers did not necessarily

know the exact number of cards registered with them. Even the stock register was not properly filled. During the field investigations, it was found that the fair price shops also experienced difficulties in obtaining supplies from Government godowns. The fair price system has helped little in reducing the intra-regional disparities in prices and movement of foodgrains. It had even failed to make any direct impact on market prices in as much as the shops functioned in the context of scarcity.

The team has recommended that the prices of foodgrains issued by the shops should be related to open market prices. If the fair price system is to protect itself from the pressures of the residual free market, it must aim at maximising the quantities of grain it handles at appropriate prices rather than distributing certain quantities at a certain fixed price. This requires discarding the concept of fair price as a consumer oriented, fixed, unchanging price. According to the team, the primary function of food imports is to augment the market supplies and not to bring down the market price to any arbitrary low level or to feed a certain class of consumers. Food imports must be restricted to such quantities as are required by the market. Imports larger than this will lead to increasing dependence on imports. Conceding that one of the most important uses of imported supplies is to build reserve stocks, the report emphasises that even when such stocks are built, any attempt to sell the grain at a low price through the fair price system will make the entire system vulnerable to the pressures of the free market and increase its dependence on imports. Small margins given to fair price shopkeepers result in inferior service by them.

PLAN PROMOTION WORK BY STUDENTS: ADVERTISEMENT VALUE

OVER 1,00,000 students are engaged in Plan promotion activities with the assistance of planning forums in their respective colleges in the country. These activities include organising literacy classes for adults and poor children, conducting of sanitation drives in villages and slum areas and contribution of voluntary labour to a variety of public utility services. This is one of the main findings of a progress report recently prepared by the Planning Commission on Planning Forum activities. The report has also brought to light the fact that Plan consciousness was yet to percolate effectively to the rural masses, though the villages were not completely unaware of benefits of the three Plans, such as more and better schools, dispensaries, roads, irrigation facilities, fertilisers and electricity in the rural areas. It has, however, been conceded that the full benefits of Plan programmes had not reached many of the villagers, because of administrative bottle-necks and petty rural bossism. The members of the planning forums conducted in one year as many as 42 socio-economic surveys, collected Rs 1,10,000 as small savings, built or repaired 32 village roads, and participated in 31 adult literacy classes. These students also arranged for screening of film shows to popularise the concept and programmes of development among the students and the public, helped in building bunds for irrigation tanks and embankments for flood protection and digging of compost pits for

farmers. Compared to the area covered by the problem, the achievements listed bear a very small proportion, and even then, they have the demerit of impossible verification.

GANDAK: AN EXAMPLE OF CENTRE'S INDIFFERENCE

SRI CHANDRASHEKAR Singh, Bihar's Minister for Irrigation and Power, urged the Union Government on April 21, 1967 to take over the Gandak project to ensure steady allocation of funds for its systematic, planned and speedy execution. Sri Singh was addressing the ninth meeting of the Gandak Control Board held under the Chairmanship of the Governor of Bihar. Officials of the Central and the Bihar Governments attended the meeting. Sri Singh urged the Government of India officials to convey his request for taking over of the Gandak project by the appropriate authorities at the Centre. He said 'if projects like Bhakra dam and Farakka Barrage can be financed by the Centre and steel plants and heavy industries can be set up by it, there is no reason why the Union Government should not come forward to take over the Gandak project which was in no way less important than them, especially in the context of the supreme importance of raising agricultural production, in a chronically deficit State like Bihar, as quickly as possible'.

Sri Singh said that if the Centre could provide the necessary funds, the Gandak Project Administration was fully geared up to complete the entire project within the Fourth Plan itself. He said: 'Then we will not only remove for ever recurring threats of famine or scarcity in Bihar but save crores of rupees of foreign exchange now being spent from year to year, to make good the food deficit of Bihar. We will also be saved from the national humiliation of carrying a begging bowl to the doors of various nations.' Sri Singh deplored the delay in which 'a most useful project like the Gandak project had been allowed to drag on for years for want of funds'. He said the project was initiated during the Second Plan period and remained incomplete even after the end of the Third Plan. Meanwhile, the estimate of the project had now gone up from Rs 52 crores to Rs 95 crores, largely because of the delay that had occurred and the all-round rise in prices.

Sri Singh said that the importance of the Gandak scheme appeared to have been appreciated about the beginning of the Fourth Plan. To accelerate the tempo of the execution of the projects, the working group set up by the Union Government to scrutinise the Fourth Plan proposals of the various States endorsed the Central Board's recommendation to provide Rs 66.33 crores in 1966-67, but a sum of Rs 10 crores had been made available. In the current financial year, a provision of Rs 14.82 crores had been made. Sri Singh said that his information was that it would be difficult to sustain this level of expenditure in the current year, because of very tight resource position of the Government of India. The Irrigation Minister said that the actual area to be irrigated in Bihar on the completion of the project in 1971 would be 28.50 lakhs acres spread over the districts of Champaran, Muzaffarpur Saran and Darbhanga.

EX-PLANNING MINISTER ON FOURTH PLAN

PLANNING MINISTER Asoka Mehta has said that what the country needs 'is neither a big plan nor a small plan but a realistic plan'. The plan 'has necessarily to be within the resources available'. In an interview on the many issues that have been raised over the concept and practice of planned development, Sri Mehta said everything would depend on the monsoon and the availability of foreign aid. He said the resources would be large if the monsoon was good and adequate foreign aid was available. If the monsoon was bad, and the availability of foreign aid was inadequate, the resources would be smaller and the Plan would also be smaller. As a result of the drought last year and the slowing down of foreign aid which had occurred in recent months, the size of the Fourth Plan in real terms might turn out to be somewhat smaller than the level mentioned in the draft outline. Sri Mehta said it was the Government's firm intention to avoid further deficit financing during the Fourth Plan period and to check the rise in prices. The Plan will be contained within the resources that can be raised without deficit financing. It should be appreciated, Sri Mehta said, that the choice today was not between a smaller Plan and a bigger Plan, but between (1) Greater effort in terms of resources, economy, and efficiency and (2) Greater distress in terms of greater unemployment, unbalanced sectional and regional growth and mounting social conflict.

Sri Mehta, however, warned that it is neither desirable nor feasible to have a pause in development. He said: 'once the development process stops, it will bring in its wake innumerable difficulties and it will not be easy to resume it again. The recession and unemployment which are already facing us are the results of only a minor slowing down of the development process'. The results of a major pause would be disastrous. They should not forget, he said, that the country's population was increasing at the rate of 2.5 per cent per year. Her neighbours were making strenuous efforts to strengthen their economy and their military might. We cannot afford a pause! It will not mean that we are where we are. We shall then definitely slide back. Sri Mehta said the annual plan for 1967-68, second year of the Fourth Plan, would be ready by June. Work on the Fourth Plan would be accelerated thereafter and an attempt would be made to complete it as soon as the nature and impact of the monsoon was known. By that time, a more precise idea of likely foreign aid would be available and priorities and policies of the new State Governments would also be clearer. The Fourth Plan memorandum and draft outline had already been presented to Parliament. Annual plans for 1966-67 and 1967-68 had been formulated keeping these in view. The final Plan document would take note of these two annual Plans as well as the Plans for the next three years. Necessary adjustments would be made through future annual Plans. There would be a mid-Plan in the light of the Perspective Plan which had already been worked out. There need therefore be no fear of either lack of flexibility or lack of direction.

Referring to a suggestion made at the recent Chief Ministers' Conference that the period of the Fourth Plan might be lengthened by a year or two, Sri Mehta said only one Chief Minister suggested that it should be extended by a couple of years. But this was a casual observation and was not supported by any other Chief Minister. On the implications of such an extension, the Planning Minister said, an extension of the Fourth Plan by two years virtually meant imposition of a 40 per cent cut on the Plan through the back door. If the Plan was to be cut, it was better they did it directly with eyes open and with a clear understanding of the various implications rather than to do it in an indirect manner which might tend to blur such undertakings. Sri Mehta said the Planning Commission's role would become more important than before in the situation which had emerged as a result of non-Congress parties coming to power in a number of States. This would also necessitate some changes in the Planning Commission. It would be appropriate to await Government's decision in this regard. The Planning Minister said the role of the National Development Council would also become more important than in the past for the same reason. The NDC as a deliberative body and the Planning Commission as its executive agency would play a key role in future Centre-State relations.

REFORM PANEL ON RECASTING PLANNING COMMISSION

THE ADMINISTRATIVE Reforms Commission has recommended that the Planning Commission should be a non-statutory advisory body and should cease to involve itself in executive functions and decisions. An interim report on the reorganisation of the Planning Commission was submitted to the Prime Minister by the Chairman of the Administrative Reforms Commission on April 19, 1966. The Report said the Planning Commission should restrict its role to formulation of a long-term perspective plan, the 5 year plans and the annual plans. It should also evaluate plan performances. So far as the controversial question of membership of the Planning Commission is concerned, the report says that no Minister should be appointed as a member of the Planning Commission.

The Prime Minister has been so far the Chairman of the Planning Commission, but the Administrative Reforms Commission, while conceding the need for close association of the Prime Minister with planning, feels this can be secured by the Prime Minister's participation in the meetings of the Planning Commission. It has suggested that the number of NPC members should not exceed 7. Two of the members may be on a part-time basis, but the Chairman shall be a full-time member. The membership should be for a fixed period of 5 years. Reappointment should be made only in exceptional cases. The Reforms Commission has recommended that the States should appoint planning boards with five members. Here again, it is recommended that no Minister shall be a member of the board. The board will have five members, one of whom may be part-time. The planning commission has been reconstituted accordingly, but with one change: the Prime Minister is *ex officio* Chairman.

The reconstitution of the National Development Council has been favoured by the Administrative Reforms Commission. The Council must have as its members the Prime Minister, the Deputy Prime Minister, the Union Ministers of Finance, Food and Agriculture, Industrial Development and Company Affairs, Commerce, Railways, Transport and Shipping, Home Affairs, Irrigation and Power, the Chief Ministers of all States and the members of the Planning Commission. A member of the Reforms Commission has dissented from the majority in regard to the composition of the NDC. He wants the membership to be restricted to the Prime Minister, The Deputy Prime Minister, the Central Ministers of Finance, Home Affairs, Food and Agriculture, Industrial Development and Company Affairs, Irrigation and Power and the Chief Ministers of States. He is of the opinion that a separate Minister for Planning must be appointed, while the majority view is that the decisions on the proposals of the Planning Commission must be taken by the Cabinet as a whole and in Parliament the Prime Minister will deal with general policies and specific issues will be handled by the Ministers concerned.

THE ROLE OF THE PRIVATE SECTOR IN A MIXED ECONOMY

At the outset, a few basic facts about the Indian economy must be enumerated in order to assess the limitations under which a study like this has to suffer. Statistics in India, as everybody knows, are incomplete, out of date and not infrequently inconsistent. Secondly, policy and performance often vary, policy itself changing almost every quinquennium. Planning in India as distinguished from Communist Planning, covers slightly more than 25 per cent of the national product: national income at 1960-61 prices works out at Rs 15,930 crores in 1965-66. The Fourth Plan contemplates an outlay of Rs 23,750 crores yielding an average annual rate of Rs 4,750 crores. Thus the bulk of the gross national product lies outside the pale of planning. The size of public sector investment in the four plans compared to national income in the previous years works at the following percentages:

Plan	*Percentage*
I	4.2
II	9.2
III	12.2
IV	16.0

According to the Central Statistical Organisation figures for 1962-63, the national product was due to the private sector to the extent of 82 per cent while the balance of 18 per cent was produced by Government administration and enterprises. The few figures which are available relate only to the public sector, the private sector left alone because practically no data are available. Therefore, any generalisation cannot be much more dependable than wishful conjecture. The very first fundamental change that is required is to change over from 'official' planning to 'national' planning. Of course, the model would be from the U.S.A. or the U.K., not contemplating the socialisation of the means of production. With this change,

the Fourth Plan should be about 4 times the size indicated in the Draft. In other words, the private sector has to be allotted its due place. For example nothing is said about indigenous banking which covers at least 75 per cent of national credit, but the protagonists of 'Democratic Socialism' are demanding the nationalisation of banks, actually omitting the indigenous banking section from their purview.

'Mixed Economy' has been approved at different stages with different interpretations right from 1921 to 1948, from 1948 to 1956 and from 1956 to 1967. The domain of small, cottage and hand industries must continue as a permanent segment in the economy of any country for the following obvious reasons, for which ample evidence can be found in developed countries like U.S.A., Japan and U.K.:

(*a*) Minimisation of migration to urban areas on account of attractive social amenities.
(*b*) Self employment for artisans, eschewing labour troubles.
(*c*) Subsidiary and seasonal employment, not available in organised industries.
(*d*) The sector of individualistic and artistic products, for e.g., the handloom and the silk *saree* with special designs and colours compared to the mill *saree*.

For these reasons, the Government of India have reserved 72 industries for the small scale sector and disallowed any kind of assistance to medium and large factories manufacturing such commodities. But at the same time, the private sector has no exclusive facilities in these 72 industries, the Central and State Governments having the freedom to take up any of them.

According to the latest view of the Indian National Congress, the public sector should monopolise the strategic industries (but permitting and even encouraging existing units, for e.g. the TISCO and IISCO). In organised industries other than strategic, the private sector is allowed some room subject to close licensing and control, the Government exercising full discretion with regard to the choice of taking up some or more organised industries in the public sector. Nationalisation of life insurance in 1956 started the policy of the public sector taking up more and more of organised industries, and the latest demand is for nationalisation of gerneral insurance, banks and export trade. Already, the L.I.C. has been doing general insurance work on competitive lines, the Reserve Bank of India has been steering and controlling the activities of commercial and co-operative Banks, and the Department of Import and Export Control has been determining to a substantial extent the issue of Import licenses and the mechanism of export duties and subsidies. In the U.K., according to a recent Survey, there are 75,000 small exporters, the average export value ranging about £ 700 per annum, and the U.K. Government is quite alive to the importance of stimulating this segment of private and small scale effort with a view to wipe out the difficult deficit balance of payments. At present, big firms export on the average 24 per cent of production while the small exporters send out only 1.5 per cent. The policy is to stimulate exports by small firms and a National Export Training Centre has been organised in order to raise

the quality and quantity of exports and efficiency of management. The Government of India has given no thought to this area of export potential.

There are no figures with regard to total capital investment in India. According to the Annual Survey of Industries (1963), fixed capital outlay in the organised private sector, amounted to Rs 3,161 crores, employing about 4.2 million persons. The public sector capital outlay amounted to Rs 4657.1 crores in 1966-67 but the net yield on 88 units works at *minus* 0.1 per cent! These figures do not include mammoth hydel projects and industrial and commercial undertakings of the 17 States. The index of productive capital was 113, 135 and 186 respectively in the years 1960, 1961 and 1962 in organised industries in the private sector.

Even in the domain of small, cottage and hand industries, the Government has been claiming its authority to direct and control their fortunes through nominal outlays, and going to the ridiculous extent of indicating outlays in the private sector which comprise actually not even 5 per cent of national outlay by the private sector in this area. While with regard to agriculture and organised industries, some presentimental figures of outlay in the private sector have been shown, so far as small scale and cottage industries are concerned, the break-up under individual items is indicated only in the public sector, the Planning Commission contenting itself by fixing a lumpsum outlay for the private sector which, everybody must agree, is ignominiously small.

Furthermore, there appears to be a veritable tug-of-war in Government policy-making which echoes Sir Roger de Coverley's observation, 'much may be said on both sides'. There are instances of Government concerns handed over for private management, for instance, the transfer of the British steel industry by the conservative Government to the private sector. There are others of the public sector setting up units to compete with private sector units. The Cement Corporation of India is expected to produce 1 million tons of cement by 1970-71, contributing towards the target of 23 million tons, although the cement industry was recently decontrolled. The Food Corporation of India, the National Coal Development Corporation and the Fertiliser Corporation of India are other instances of the public sector competing with private sector units. In the financial field, the Industrial Credit and Investment Corporation of India, the Industrial Finance Corporation, the Industrial Development Bank of India, the Unit Trust of India, State Financial Corporations and the Agricultural Refinance Corporation are both competing and co-operating with the private sector. There are also cases of Government issuing Letters of Intent to the private sector even in areas in which public sector units have already been functioning. Quite a few industries have been decontrolled, but tight day-to-day Government control has been threatening the destinies of vital industries like textiles, sugar and coal. As mentioned earlier, the room for capital outlay, particularly in the consumer industries field, is incalculably wide, intensified by the great urgency for establishing fertiliser units with foreign private capital and technical participation with a view to approach the goal of 120 million tons of foodgrains by 1970-71. For this purpose, several important attractions and guarantees have been announced, extending the expiry date to the

end of 1967. Also, the Government is not unaware of great potentialities of joint ventures by Indian entrepreneurs in other countries, particularly Africa. All this looks like blowing hot and cold in the same breath!

In this respect, the Mysore Government is more enlightened and has been offering facilities like suitable sites, electric power and water supply—free or at concessional rates. Entrepreneurs outside the State have been individually approached for the purpose of starting industries in the State for which raw materials, and other advantages are available. With Sharavati, Shivanasamudram, Shimsha, Krishnarajasagar and Tungabadra hydel and irrigation mammoth works at one end in the public sector, there are numerous small private industries all over the state like hardboard, paper and agricultural instruments. At the same time, the Mysore Government, perhaps in the wake of all India policy, has also decided to start rice mills and Super-bazaars in the public sector.

The private sector has not all been angelic in its contribution to the mixed economy. There has been unmistakably an unhealthy growth of monopoly and power in the private sector, but it should be remembered that much of this was due to the protection of the domestic producer by a short-sighted polcy of import control. It is a fact that adulteration of foodstuffs, the black market and corruption have reached very unhealthy dimensions in the private sector, but this national calamity has shown itself none the less in the public and the Co-operative sectors as well. There have been cases of State Governments making profits out of supply of foodgrains and seeds, and in hundreds of Government godowns, foodgrains have been discovered which are unfit for human consumption. The working of the Durgapur steel plant has been ordered to be scrutinised by the National Council of Applied Economic Research recently, and Government have appointed a committee to estimate the exorbitant increase in working expenses in the Life Insurance Corporation. In Hindustan Steel, there is a difference of about half a crore of rupees between financial accounts and stocks registers.

The initial mistake of concentrating on heavy industries has been stuck to even nowadays except perhaps in the case of more liberal outlays on agriculture. Commonsense shows that in India, with very rich resources but with very poor capacity to utilise them, in the comparative absence of enough food and disease-free drinking water, it was almost criminal on the part of the authorities to have sunk hundreds of crores of rupees in iron and steel, atomic power and shipping. To add fuel to fire, scores of industries have been established by the Central and State Governments, which are quite anomalous compared to the accepted schedule of priorities. Perhaps there is no other country in the world which has accepted capital and technical aid from such a variety of countries for the purpose of launching such a wild conglomeration of industrial units!

The distinction between big and small industries (capital and labour intensive) has changed very much in connotation during the last 30 years. For e.g., the range of the small industry has developed from hand spinning to the Gandhi Charka. The handloom is fast giving way for the spread of power-loom. Hand ginning has been superceded by small ginning mills. The step well and the moat have

become archaic compared to electric pumps. In large scale industry (capital intensive), it has of late been realised that beyond the optimal point, on account of excessive overheads, cost per unit of product increases, and therefore, economies in small units have begun to be appreciated, for e.g., small steam mills in Japan and small electric generators in India. This trend promises to develop further in the near future. The 3 derived tables given below warrant the following observations:

(*a*) Items like agriculture, village and small industries, housing and other social services in the private sector have been seriously belittled: the plan targets may not be more than 5-10 per cent of the actual scope for planning. It is true that along the 4 plans, there is greater recognition of the importance of the private sector in these fields through larger estimates. But yet, the vacuum is gigantic.

(*b*) The private sector must play a predominant part in village and small industries, but while the outlay targets in the public sector are nominal, those in the private sector are worse than irresponsible guesses: no break-up has been hazarded with regard to this sector in village and small industries.

(*c*) Small-scale enterprises have to some extent been encouraged in the shape of minor irrigation works, electric pumping sets, small electric generators and powerlooms, but there is still a considerable amount of control which cannot be construed as constructive.

(*d*) It is impossible to understand on what criteria the Planning Commission fixed omnibus targets for outlays in the private sector, not only in sectors in which the small producer even today plays a predominant part, but also in items like organised industries and transport and communication. So far as the public sector is concerned, Government departments must have prepared the basis for allocation of funds, but there is no evidence to show that the private sector was consulted at any level with regard to empirical outlays in the private sector nor are there any source materials available for such fixation of targets.

TABLE 11

ALLOCATION OF PLAN INVESTMENT

(In crores of Rupees)

Plan	*Investment*		
	Public sector	*Private sector*	*Total*
First Plan	1,560	1,800	3,360
Second Plan	3,650	3,100	6,750
Third Plan	6,300	4,100	10,400
Fourth Plan	13,600	7,750	21,350

TABLE 12

SECTORAL ALLOCATION OF INVESTMENT IN THE PLANS

(In crores of Rupees)

Plan	*Agriculture, Community Development and Co-operation*	*Major and minor irrigation*	*Power*	*Village and small industries*	*Organised industries and mining*	*Transport and communications*	*Social services and other programmes*	*Inventories*	*Total*
First Plan									
Public Sector	291		260	43	74	523	459	...	1,650*
Private Sector	...		...	...	...	...	...	...	1,800
Total	291		260	43	74	523	459	...	3,360
Second Plan									
Public Sector	210		445	90	870	1,275	340	...	3,650†
Private Sector	625		40	175	675	135	950	500	3,100
Total	835		485	265	1,545	1,410	1,290	500	6,750
Third Plan									
Public Sector	660	650	1,012	150	1,520	1,486	622	200	6,300
Private Sector	800		50	275	1,050	250	1,075	600	4,100
Total	1,460	650	1,062	425	2,570	1,736	1,697	800	10,400
Fo rth Plan									
Public Sector	1,575	964	2,030	230	3,936	3,010	1,855	...	13,600
Private Sector	900		50	320	2,350	630	1,600	1,900	7,700
Total	2,475	964	2,080	550	6,286	3,640	3,455	1.900	21,300
1966–67‡									
Public Sector	346.55	143.76	399.27	45.53	542.84	431.87	305.99	N.A.	2,215.81 (against plan provision of 2,221)
1967–68‡									
Public Sector	376.50	146.77	384.78	43.55	520.19	418.76	355.53	N.A.	2,246.08 (plan provision)

* Investment was Rs 1,560 crores, the rest having been current outlay.

† Rs 3,731 crores according to a revised estimate.

‡ The allocations for the private sector have not yet been published. Figures include current outlay plus investment.

TABLE 13

OUTLAY ON VILLAGE AND SMALL INDUSTRIES: THIRD AND FOURTH PLANS—PUBLIC SECTOR

(Rs Crores)

Item	*III Plan actual*	*IV Plan target*
Handlooms Powerlooms	26.43	65.00
Khadi Village industries	90.05	105.00
Sericulture	5.30	13.00
Coir	1.84	4.00
Handicrafts	4.51	18.00
Small Scale Industries	62.67	120.00
Industrial Estates	23.35	25.00
Rural Industrial projects	5.41	20.00
Total	219.56*	370.00†

* The target was Rs 150 crores.

† According to the General outline, the target is Rs 250 crores. Perhaps this is due to the inclusion of more items in the details of break-up.

(*e*) In the draft Fourth Plan, no outlay is indicated for the private sector in the following 12 categories. Does it mean that the Planners do not expect the private sector to contribute its own mite towards development in these vitally important fields? This omission is a direct product of short-sighted armchair planning in New Delhi:

(*i*) Irrigation.
(*ii*) Scientific Research.
(*iii*) Health.
(*iv*) Family Planning.
(*v*) Water Supply.
(*vi*) Welfare of Backward Classes.
(*vii*) Craftsmen training and labour welfare.
(*viii*) Public Co-operation.
(*ix*) Rural Works.
(*x*) Hill areas and special areas.
(*xi*) Rehabilitation.
(*xii*) Other programmes.

(*f*) The matter of fact is that national production is widely dispersed over the entire rural area, and the organised large scale sector is confined

practically to a few hundred urban centres for which some data are available, but for the rest of the country, it is mostly a cleanslate statistically speaking.

(*g*) India is a huge country with a population of 512 million and the Administration (Central, State and Local) has today very thin touch with the population. A good portion of Government progress Reports on irrigated area, hybrid seeds and crop-yields is confined to printed or typed pages and has no reference to actualities in villages. This is *the* explanation for the wide gap between rosy reports by Government Departments and the tumbling down of crop estimates in the later part of the year.

(*h*) There cannot be any difference of opinion on the future of the private sector in the economy of India. Even by now, the authorities have come to realise that 'Democratic Socialism' is rather incongruous—somewhat like the Sphinx with a lion's body and a woman's head. The Aid India Club and the World Bank as also the U.S.A. have not been hesitant in criticising the Government of India for destructive revolutionary steps like abolishing intermediaries in agriculture and similar changes declared *ultra vires* by the Supreme Court. On the other hand, the prospect is certain for the private sector to profit by experience and gain its rightful place as the dominating entity in national production. Given the market economy, the private sector is bound to succeed in adding substantially to the national income and in raising the standard of life in the masses by developing and devoting greater attention to consumer industries. No country in the world is all capital intensive in production—the Ford Motor Co. has several hundreds of small self-employed workshops functioning as ancillary industries. Even in the U.S.S.R., about a quarter of the economy comprises the free-market. The public sector must inevitably concentrate on strategic industries, natural monopolies like minerals, sandalwood and toddy trees, enterprises which involve gigantic capital outlay which the private sector cannot gather, and units of public utility with minimum returns in which the private sector cannot be interested.

WRONG PRIORITIES

Over 80 per cent of the population has no protected water to drink and more than 10 million tons of foodgrains are being imported annually, although we have several highlights of hydel works and heavy industries, and this constitutes a serious breach of rational priorities. The wholesale price index has been rising at an annual rate of 28 per cent during the last 3 years while during the previous 14 years, the average annual rise was 2 per cent.* Planning has been practised for over 15 years, but the 'Welfare State' looks more of a mirage today than compared to 1950!

* See page 64 *supra*.

Chapter VIII

PLAN DATA

TWENTY YEARS OF PLANNING—OBJECTIVES: THE FIRST FIVE YEAR PLAN

The immediate aim of the First Plan was to provide an answer to the problems of high and rising prices, shortages of raw materials and of essential consumer goods, and the relief and rehabilitation of displaced persons. The long-term objective was to initiate a process of planned economic development. An outlay of Rs 2,000 crores (later increased to Rs 2,400 crores) was proposed for the public sector. This, together with an estimated investment of Rs 1,600 crores in the private sector, was expected to lead to 11 per cent increase in national income. Investment in the economy was to rise from an annual rate of Rs 450 crores in 1950-51 to about Rs 675 crores in 1955-56, i.e., from 5 per cent to 7 per cent of national income. These objectives were fulfilled. National income in 1955-56 was 18.4 per cent higher than at the beginning of the Plan. Agricultural production increased by 22 per cent. Industrial production went up by 39 per cent; production of capital goods rose by 70 per cent and that of intermediate goods and consumer goods by 34 per cent each. A considerable advance was made in strengthening the economic and social infrastructure.

The following 7 tables contain figures with regard to the First Plan.

Table 14

AGRICULTURE: PHYSICAL TARGETS AND ACHIEVEMENTS

		1948-49	*1950-51*	*1955-56*	
				Targets	*Achievements*
Foodgrains	million tons	52.6	54.9*	62.6	66.9
Cotton	million bales of 180 kgs each	1.8	58.5† 2.9	4.1	4.0
Jute	,,	2.1	3.3	5.4	4.2
Sugarcane (gur)	million tons	5.0	5.7	6.4	6.1
Oilseeds	,,	4.6	5.2	5.6	5.7

* For 1949-50.

† Corresponding estimates of production adjusted for changes in statistical average and methods of estimation.

Table 15

IRRIGATION AND POWER: FIRST PLAN TARGETS AND ACHIEVEMENTS

	1948-49	*1950-51*	*1955-56*	
			Targets	*Achievements*
Area irrigated (net) million hectares	18.9	20.9	24.3*	22.7
Electrical energy (installed capacity) million kwh.	1.8	2.3	3.6	3.4

* Arrived at by adding to the base year's figure the additional area of 3.4 million hectares expected to be irrigated from major and medium projects.

TABLE 16

SHIPPING: TARGETS AND ACHIEVEMENTS: FIRST PLAN

		1950-51	1955-56	
			Targets	*Achievements*
Coastal	'000 Grt.	217	325	240
Overseas	'000 Grt.	174	285	240

TABLE 17

ROADS—FIRST PLAN: ACHIEVEMENTS

	1950-51	*1955-56 Achievements*
Surfaced road '000 kilometres	157	183

TABLE 18

HEALTH—FIRST PLAN: TARGETS AND ACHIEVEMENTS

		1948-49	*1950-51*	*1955-56*	
				Targets	*Achievements*
Hospital beds	'000 nos.	109	113	125	125
Dispensaries and hospitals	,,	9.0	8.6	10.0	10.0

TABLE 19

INDUSTRY—FIRST PLAN: TARGETS AND ACHIEVEMENTS

		1948-49	*1950-51*	*1955-56*	
				Targets	*Achievements*
Coal	million tons	30.3	32.8	39.6	39.0
Finished steel	,,	0.9	1.0	1.7	1.3
Cement	,,	1.6	2.7	4.9	4.7
Aluminium	'000 tons	3.5	4.0	12.2	7.4
Ammonium sulphate	,,	35.8	47.0	457.2	400.3
Superphosphates	,,	21.7	56.0	182.9	71.1
Locomotives	numbers	—	7	142	179
Cotton yarn	million kgs.	1,447	1,178	1,640	1,640
Handloom cloth	million metres	972	678	1,554	1,296
Cotton cloth (mill)	,, ,,	3,950	3,401	4,298	4,665
Jute manufactures	'000 tons	1,105	837	1,219	1,071
Bicycles	'000 nos.	55	99	530	513
Sewing machines	,,	20	33	92	111
Sugar (Nov.-Oct.)	million tons	1.0	1.1	1.5	1.9
Paper and paperboard	'000 tons	100	116	203	190
Vanaspati	,,	145	170	305	280
Electric transformers	'000 nos.	82	178	450	625
Electric motors	'000 h.p.	60	99	320	272
Electric fans	'000 nos.	160	197	320	287
Automobiles	,,	21.8*	16.5	30.0	25.3

* Relates to 1949.

TABLE 20

EDUCATION—FIRST PLAN: ACHIEVEMENTS

		1949-50	1950-51	1955-56 Achievements
Primary/junior basic schools	'000 nos.	205	210	278
Pupils in primary school/ classes	million nos.	17.8	19.2	25.2
Proportion of school-going children in the age group 6-11 years	per cent	n.a.	42.6	50.5

THE SECOND FIVE YEAR PLAN

MAJOR OBJECTIVES

(*a*) A sizeable increase in national income so as to raise the level of living in the country;

(*b*) Rapid industrialisation with particular emphasis on the development of basic and heavy industries;

(*c*) A large expansion of employment opportunities; and

(*d*) Reduction of inequalities in income and wealth and a more even distribution of economic power.

The plan proposed an outlay of Rs 4,800 crores in the public sector, of which Rs 3,800 crores was to be invested. Investment in the private sector was estimated at Rs 2,400 crores. Total investment in the Second Plan was twice that in the First Plan.

The rate of investment was to increase from 7 per cent of national income in the first year of the Plan to 11 per cent by the end of the Plan.

A more rapid rate of growth of national income than that achieved in the First Plan was aimed at 5 per cent per annum as against 3.5 per cent in the First Plan.

At the beginning of the Plan, some 5.3 million persons were estimated to be unemployed—2.8 million in the rural areas and 2.5 million in the urban areas. With the growth of population, some 10 million persons were expected to enter the labour force. The Plan envisaged creation of 8 million job opportunities outside agriculture; and another 1.6 million persons were expected to be absorbed in agriculture and allied activities.

The Plan laid particular stress on industrialisation. The following priorities were laid down:

(1) Increased production of iron and steel and of heavy chemicals including nitrogenous fertilisers and development of heavy engineering and machine building industries.

(2) Expansion of capacity in respect of other developmental commodities and producer goods such as aluminium, cement, chemical pulp, dyestuffs, phosphatic fertilisers and essential drugs.

(3) Modernisation and re-equipment of important industries like cotton textiles, jute and sugar and full utilisation of existing capacity.

The Second Plan came to a close in March 1961. National income over the period of the Plan increased by 20 per cent. Industrial production went up by some 41 per cent and agricultural production nearly by 20 per cent. The rate of investment increased from 8 per cent at the beginning of the Plan to about 11 per cent.

Taking the 10 years of the two five year Plans together, agricultural production showed a rise of about 46 per cent—industrial production increased by about 95 per cent. National income rose by 43 per cent and *per capita* income by about 18 per cent. A significant increase occurred in the rate of investment—from 5 to 11 per cent of the national income.

Steel capacity of nearly 4½ million tons was built up. Power capacity increased nearly 2½ times—railways were carrying over 50 per cent more traffic than they did 10 years before. The field organisation and the administrative machinery for agricultural development were greatly strengthened. These developments, despite difficulties experienced due to rise in prices and shortage of foreign exchange, provided a basis for accelerated growth during the third and the fourth five year Plans.

The following 10 tables give data about the Second Plan:

TABLE 21

PATTERN OF PLAN OUTLAY IN THE PUBLIC SECTOR: SECOND PLAN

Item	*Amount (Rs Crores)*		*Percentage distribution*	
	Plan provision	*Actual outlay*	*Plan provision*	*Actual outlay*
Agriculture and Community Development	568.0	549.0	11.8	11.7
Irrigation and Power	913.0	882.0	19.0	18.9
Industry and Mining	890.0	1,125.0	18.6	24.1
Transport and Communications	1,385.0	1,261.0	28.9	27.0
Social Services and Miscellaneous	1,044.0	855.0	21.7	18.3
Total	4,800.0	4,672.0	100.0	100.0

TABLE 22

INVESTMENT IN THE PUBLIC AND PRIVATE SECTORS: SECOND PLAN

(Rupees Crores)

Item	*Public sector*	*Private sector*	*Total*
Agriculture and Community Development	210.0	625.0	835.0
Major and medium irrigation	420.0	*	420.0
Power	445.0	40.0	485.0
Village and small industries	90.0	175.0	265.0
Organised Industry and minerals	870.0	675.0	1545.0
Transport and communications	1275.0	135.0	1410.0
Social services and miscellaneous	340.0	950.0	1290.0
Inventories	...	500.0	500.0
Total	3650.0†	3100.0‡	6750.0
		percentage distribution	
Agriculture and Community Development	6	20	12
Major and medium irrigation	12	*	6
Power	12	1	7
Village and small industries	2	6	4
Organised Industry and minerals	24	22	23
Transport and communications	35	4	21
Social services and miscellaneous	9	31	19
Inventories	...	16	8
Total	100	100	100

* Included under agriculture and community development.

† According to later estimates, investment in the public sector was Rs 3,731 crores.

‡ Excludes transfer (Rs 200 crores) from public to private sector.

TABLE 23

FINANCES OF PLAN OUTLAY IN THE PUBLIC SECTOR: SECOND PLAN

Item	*Amount Crores*		*Percentage distribution*	
	As proposed in the Plan	*Actuals*	*As proposed in the Plan*	*Actuals*
Surplus from current revenues at existing (1955-56) rates of taxation	350.0	11.0	7.3	0.2
Additional taxation	450.0	1052.0	9.4	22.5
Public loans (net)	700.0	772.0*	14.6	16.5
Small savings (net)	500.0	406.0	10.4	8.7
Railways contribution	150.0	167.0	3.1	3.6
Unfunded debt and miscellaneous capital receipts	250.0	261.0	5.2	5.6
Foreign assistance	800.0	1049.0	16.7	22.5
Deficit financing	1200.0	954.0	25.0	20.4
Gap to be covered by additional measures to raise domestic resources	400.0	...	8.3	...
Total	4800.0	4672.0	100.0	100.0

* Includes proceeds of Rs 16.0 crores from prize bonds.

TABLE 24

AGRICULTURE—SECOND PLAN: PHYSICAL TARGETS AND ACHIEVEMENTS

Item	Unit	1955-56 Achievements	1960-61 Targets	1960-61 Achievements
Foodgrains	million tons	66.9	76.2 (81.8)	82.0
Cotton	million bales of 180 kgs. each	4.0	5.4 (6.5)	5.3
Sugarcane (gur)	million tons	6.1	7.2 (7.9)	11.1
Oilseeds	,,	5.7	7.1 (7.7)	7.0
Jute	million bales of 180 kgs. each	4.2	5.0 (5.5)	4.1
Tea	million kgs.	285	318	321

Note: Figures in bracket indicate the revised targets.

TABLE 25

IRRIGATION AND POWER—SECOND PLAN: TARGETS AND ACHIEVEMENTS

Item	Unit	1955-56 Achievements	1960-61 Targets	1960-61 Achievements
Area irrigated (net)	million hectares	22.7	27.5	24.6
Electricity (capacity)	million kw.	3.4	6.9	5.7
Electricity (generated)	,, kwh.	10,777	22,000	20,023

TABLE 26

COMMUNITY DEVELOPMENT—SECOND PLAN: TARGETS AND ACHIEVEMENTS

Item	Unit	1955-56 Achievements	1960-61 Targets	1960-61 Achievements
Blocks	number	1,075	3,088	3,137
Villages covered	'000 nos.	143	386	364
Population served	million	69	n.a.	203

Note: Population coverage is based on 1951 census.

TABLE 27

INDUSTRY AND MINING—SECOND PLAN: TARGETS AND ACHIEVEMENTS

Item	Unit	1955-56 Achievements	1960-61 Targets	1960-61 Achievements
Coal	million tons	39.0	61.0	55.5
Iron ore	,,	4.3	12.7	11.0
Finished Steel	,,	1.3	4.4	2.4
Pig-iron (for sale)	,,	0.4	0.8	1.1
Cement	,,	4.7	13.2	8.0
Aluminium	'000 tons	7.4	25.4	18.3
Cement machinery	Rs crores	0.4	2.0	0.6
Sugar machinery	,,	0.2	2.5	4.4
Machine tools	,,	0.8	3.0	7.0
Steel structural fabrications	'000 tons	203	508	229
Electric motors 200 h.p. and below	'000 tons	272	600	728
Electric transformers (33 kv. and below)	'000	625	1,360	1,392
Electric cables (ACSR conductors)	'000 tons	8.8	18.3	24.0
Railway locomotives	numbers	179	400	272
Fertilisers:				
Nitrogenous	'000 tons of N	80	290	99
Phosphatic	,, of P 205	12	122	54
Sulphuric acid	'000 tons	167	478	368
Caustic soda	,,	36	137	101
Soda ash	,,	82	234	152
Sulpha drugs	tons	84	449	147
D.D.T.	,,	288	2,845	2,831
Sewing machines	'000 tons	111	220	303
Bicycles	,,	513	1,000	1,071
Automobiles	,,	25.3	57.0	55.0
Cotton cloth (mill)	million metres	4,665	4,892	4,649
Sugar*	million tons	1.9	2.3	3.0
Petroleum products	,,	3.4	4.4	5.8
Paper and paper board	'000 tons	190	356	350

* During sugar season (Nov.-Oct.).

TABLE 28

TRANSPORT AND COMMUNICATIONS—SECOND PLAN: TARGETS AND ACHIEVEMENTS

Item	Unit	1955-56 Achievements	1960-61 Targets	1960-61 Achievements
Railways:				
Passenger train kilometres*	million	175	200	193
Freight originating	million tons.	116	165	156
Surfaced road	'000 kilometres	183	224	236
Shipping	million GRT	0.5	0.9	0.9
Post Offices	'000 numbers	55	75	77
Telegraph offices	,,	5.1	6.3	7.0
Telephone connections	,,	278	458	463

* Including electrical multiple units.

TABLE 29

HEALTH—SECOND PLAN: TARGETS AND ACHIEVEMENTS

Item	Unit	1955-56 Achievements	1960-61 Targets	1960-61 Achievements
Hospitals and dispensaries	'000 nos.	10.0	12.6	12.6
Hospital beds	,,	125	155	186
Primary health units	numbers	725	3,725	2,800
Family planning centres	,,	147	2.647	1,649
Registered doctors	'000 nos.	65.0	82.5	70.0
Registered nurses	,,	18.5	31.0	27.0

TABLE 30

EDUCATION—SECOND PLAN: TARGETS AND ACHIEVEMENTS

Item	Unit	1955-56 Achievements	1960-61 Targets	1960-61 Achievements
Students in schools	million nos.	31.3	41.2	44.7
School-going children as a proportion of children in the respective age group				
Primary stage (6-11 years)	per cent	50.5	63.0	62.4
Middle stage (11-14 years)	,,	16.5	22.5	22.5
Higher Secondary stage (14-17 years)		7.8	12.0	10.6
Engineering and technological Institutions				
Degree level: Intake of students	'000 nos.	5.9	13.5	13.8
Diploma level: Intake of students	,,	10.5	13.1	25.8
Medical colleges: Intake of students	nos.	3,500	4,500	5,800

THE THIRD FIVE YEAR PLAN

1. Major Objectives

The Third Plan commenced from April, 1961. The principal objectives of the Third Plan were:

(1) To secure a rise in national income of over 5 per cent per annum, the pattern of investment being designed also to sustain this rate of growth during subsequent Plan periods.

(2) To achieve self-sufficiency in foodgrains and increase in agricultural production to meet the requirements of industry and exports.

(3) To expand basic industries like steel, chemicals, fuel and power and establish machine-building capacity so that the requirements of further industrialization can be met within a period of 10 years or so, mainly from the country's own resources.

(4) To utilise to the fullest possible extent the manpower resources of the country and to ensure a substantial expansion in employment opportunities; and

(5) To establish progressively greater equality of opportunity and to bring about reduction in disparities in income and wealth and a more even distribution of economic power.

2. As against the public sector Plan outlay of about Rs 7,500 crores, the anticipated expenditure on the Third Plan is around Rs 8,632 crores. The Plan had proposed an investment of Rs 4,100 crores in the private sector. The rate of investment increased from 11 per cent of the national income by the end of the Second Plan to 14-15 per cent at the end of the Third Plan.

3. The Third Plan period was in certain respects very abnormal. Weather conditions, which govern agricultural production, were adverse in three years out of the five. The country faced hostilities in 1962 and again in 1965 which necessitated a step-up in defence outlays and led to inflationary pressures. There were delays in securing foreign credits initially and virtual suspension and pause in foreign aid in the last year.

4. The growth in national income during the Third Plan period fluctuated from year to year. National income increased by 2.5 per cent in the first year, but the rate of growth declined to 1.7 per cent in the second year. It moved up again to 4.9 per cent in the third and to 7.6 per cent in the fourth year. In 1965-66, the last year of the Third Plan, there was a setback due to unprecedented drought and the national income is estimated to have declined by some 4 per cent.

5. Over the first three five year Plans, national income at constant prices increased at the compound annual rate of about 3.8 per cent. The following 13 tables contain figures with regard to the Third Plan period:

TABLE 31

PATTERN OF PLAN OUTLAY AND INVESTMENT—PUBLIC AND PRIVATE SECTORS: THIRD PLAN

(Rupees Crores)

Item	*Public sector*			*Private investment*	*Total investment*
	Total	*Current outlays*	*Investment*		
Agriculture and community development*	1,068.0	408.0	660.0	800.0	1,460.0
Major and medium irrigation	650.0	...	650.0	†	650.0
Power	1,012.0	...	1,012.0	50.0	1,062.0
Village and small industries	264.0	114.0	150.0	275.0	425.0
Organised industry and minerals	1,520.0		1,520.0	1,050.0	2,570.0
Transport and communications	1,486.0	...	1,486.0	250.0	1,736.0
Social services and miscellaneous	1,300.0	678.0	622.0	1,075.0	1,697.0
Inventories	200.0	...	200.0	600.0	800.0
Total	7,500.0	1,200.0	6,300.0	4,100.0‡	10,400.0

* Including minor irrigation.

† Included under agriculture and community development.

‡ Including resources transferred from the public sector, investment in the private sector is expected to be Rs 4,300 crores; investment in the public sector will correspondingly be Rs 6,100 crores.

TABLE 32

PATTERN OF PLAN OUTLAY IN THE PUBLIC SECTOR—CENTRE AND STATES: THIRD PLAN

(Rupees Crores)

Item	*Total*	*Centre*	*States & Union territories*	*Likely outlay*
Agriculture and community development	1,068.0	125.0	943.0	1,103.0
Major and medium irrigation	650.0	18.0	632.0	657.0
Power	1,012.0	109.0	903.0	1,262.0
Village and small industries	264.0	123.0	141.0	224.0
Industries and minerals	1,520.0	1,450.0	70.0	1,735.0
Transport and communications	1,486.0	1,225.0	261.0	2,116.0
Social services and miscellaneous	1,300.0	350.0	950.0	1,534.0
Inventories	200.0	200.0	...	*
Total	7,500.0	3,600.0	3,900.0	8,631.0

* Expenditure in respect of inventories is distributed under various heads.

TABLE 33

INVESTMENT AND FOREIGN EXCHANGE REQUIREMENTS: THIRD PLAN

Item	*Total investment (Plan provision)*	*Foreign exchange component*	*Foreign exchange component as per cent of investment*
	Rupees crores		
Public sector:	6,100.0	1,520.0	24.9
Agriculture and community development	660.0	30.0	4.5
Major and medium irrigation	650.0	50.0	7.7
Power	1,012.0	320.0	31.6
Village and small industries	150.0	20.0	13.3
Large and medium industries and minerals (including oil)	152.0	690.0	45.4
Transport and communications	1,486.0	320.0	21.5
Social services and miscellaneous	622.0	90.0	14.5
Inventories	200.0	nil	nil
Private sector:	4,300.0	510.0	11.9
Large and medium industries, minerals and transport	1,300.0	495.0	38.7
Village and small industries	275.0	15.0	5.4
Others	2,525.0	neg.	neg.
Total	10,400.0	2,030.0	19.5

TABLE 34

INVESTMENT AND OUTLAY DURING THE PLAN PERIODS: INDIA

(Rs crores)

Period	*Public sector*			*Private sector investment*	*Total investment*	*Percentage of investment to plan outlay*	*Percentage of public investment to total investment*
	Plan outlay	*Current outlay*	*Investment (1-2)*				
First Plan (1951-52 to 1955-56)	1,960	400	1,560	1,800*	3,360	79.59	46.1
Second Plan (1956-57 to 1960-61)	4,600	950	3,650†	3,100‡	6,750	79.35	54.1
Third Plan (1961-62 to 1965-66)	7,500	1,200	6,300†	4,100	10,400	84.00	60.6
Increase in the Second Plan over the First Plan (percentage)	135	138	134	72	101		
Increase in the Third Plan over the Second Plan (percentage)	63	26	73	32	54		

* Excluding transfers from the public sector.

† Includes transfers of resources of Rs 200 crores to finance the private sector investment: excluding this figure, the investment in the public sector would be Rs 3,450 crores and Rs 6,100 crores, respectively, during the Second and Third Plans.

‡ Excludes private investment of Rs 200 crores financed by the transfer of resources from the public sector: including this figure, the private sector investment would be Rs 3,300 crores and Rs 4,300 crores respectively, during the Second and Third Plans.

At the time of the formulation of the Third Plan, the resources in sight for financing the development programme in the public sector were estimated at Rs 7,500 crores. The cost of the physical programmes included in the Plan was, however, assessed at a higher level—more than Rs 8,000 crores. It was stressed, therefore, that the resources position should be kept under continuous review so that timely action could be taken to reduce the gap between requirements and resources.

The Table 35 shows the pattern of financing the Third Plan as originally envisaged and as it works out now on the basis of the latest estimates.

TABLE 35

FINANCIAL RESOURCES FOR THE THIRD PLAN

(Rupees crores)

Item	*Original scheme of financing*	*Latest estimates*
Balance from current revenues at 1960-61 rates of taxation	550	—470
Railways' contribution at 1960-61 rates of fares and freights	100	80
Surplus of other public enterprises at 1960-61 prices of products	450	395
Loans from the public (net)	800	915
Small savings	600	585
Unfunded debt (net)	265	340
Compulsory deposits and annuity deposit (net)*	...	115
Steel equalisation fund (net)	105	35
Miscellaneous capital receipts (net)	170	150
Budgetary receipts corresponding to external assistance	2,200	2,455
Additional taxation, including measures to increase the surplus of public enterprises	1,710	2,880
Deficit financing	550	1,150
Total	7,500	8,630

* These were introduced subsequent to the formulation of the Plan.

It will be seen that the yield over the Third Plan period from additional taxation, including measures to raise the surplus of public enterprises, has considerably exceeded the target of Rs 1,710 crores. The yield from the measures adopted by the Centre is estimated at about Rs 2,270 crores, which is more than twice the amount of Rs 1,100 crores envisaged in the Plan. The details of additional resources mobilisation by the Centre and States are given in Table 36.

TABLE 36

YIELD FROM ADDITIONAL TAXATION INCLUDING MEASURES FOR RAISING THE SURPLUS OF PUBLIC ENTERPRISES OVER THE THIRD PLAN PERIOD

(Rupees crores)

		Total receipts over Third Plan	*Yield from additional taxation*
A. CENTRE			
Taxes:			
(*a*) income and corporation taxes		2,433	303
(*b*) union excises		3,481	1,020
(*c*) customs		1,722	690
(*d*) wealth tax, expenditure tax, estate duty and gift tax		88	19
(*e*) other taxes and duties		101	10
	Total	7,825	2,042
railway fares and freights		2,848	11
postal revenue*		281	17
	Total A	10,954	2,070
B. STATES			
agricultural income tax		50	7
land revenue		559	50
irrigation rates		170†	24
state excise duties		370	36
stamps and registration		303	49
taxes on motor vehicles and passengers and goods		349	93
general sales tax		985	157
interstate sales tax		248	74
sales tax on motor spirit		120	17
entertainment tax		114	19
electricity duty		129	46
electricity tariffs and charges of public transport undertakings		‡	17
others		90	21
	Total B	3,487†	610
C. Grand Total (A and B)			2,880

* All postal receipts including those from telegrams, telephones, etc. but excluding miscellaneous receipts.

† Gross receipts (i.e., without deducting working expenses and interest charges).

‡ The total of gross receipts from electricity tariffs and charges of transport undertakings in the public sector is not available.

The following 7 tables contain figures with regard to achievements by 1960-61, and targets and likely achievements by 1965-66:

TABLE 37

MAJOR PHYSICAL TARGETS AND ACHIEVEMENTS IN AGRICULTURE: THIRD PLAN

Crop	*Unit*	*1964-65*	*1965-66*	*1966-67*
Foodgrains	million tons	82.0	100.0	72.3
Cotton	,, bales	5.3	7.0	5.4
Jute	,, ,,	4.1	6.2	4.5
Sugarcane (gur)	,, tons	11.1	10.2	12.3
Oilseeds	,, ,,	7.0	10.0	7.5
Tea	,, kgs.	321	408	376
Coffee	'000 tons	68	80	75
Rubber	'000 tons	26.1	45.7	50.8

TABLE 38

IRRIGATION AND POWER—THIRD PLAN: TARGETS AND ACHIEVEMENTS

Item	*Unit*	*1960-61 Achievements*	*1965-66 Targets*	*1965-66 Likely Achievements*
Minor and medium irrigation schemes:				
Potential at channel outlets	million hectares	4.7	11.9	7.7
Utilisation	,,	3.4	9.2	6.1
Area irrigated (net)	,,	24.6	36.4	31.7
Electricity (installed capacity)	million kwh.	5.7	12.7	10.5
No. of towns and villages electrified	'000 nos.	24.2	43.0	52.3

TABLE 39

COMMUNITY DEVELOPMENT—THIRD PLAN: TARGETS

Item	*Unit*	*1960-61*	*1965-66 targets*
Blocks*	number	3,137	5,325
Villages covered	'000 nos.	364	567
Population served	million	203	405

*A block is a unit of Rural Development Administration covering on an average 100 villages and approximately 65,000 persons. At present, blocks are divided into 3 stages. The first year of operation is called the pre-extension stage. After the pre-extension stage, the block enters stage I which normally lasts for 5 years, followed by stage II which lasts another 5 years. At the end of stage I, the block is envisaged to reach a stage of comparative self-sufficiency. The percentage break-up of the development blocks by stages is given below:

	At the end of 1960-61	At the end of 1965-66
Stage I	72.0	44.4
Stage II	28.0	41.2
Stage III	...	14.4
Total	100.0	100.0

TABLE 40

INDUSTRY AND MINING—THIRD PLAN: TARGETS AND ACHIEVEMENTS

Item	Unit	1960-61				1965-66	
		Achievements		*Targets*		*Likely Achievements*	
		Capacity	*Output*	*Capacity*	*Output*	*Capacity*	*Output*
Coal	million tons	...	55.5	...	97.0	...	70.0
Iron Ore	,,	...	11.0	...	30.0*	...	24.0*
Finished steel	,,	4.6	2.4	7.6	6.9	5.6	4.5
Pig iron (for sale)	,,	1.1	1.1	1.5	1.5	1.2	1.2
Cement	,,	9.3	8.0	15.3	13.2	12.0	10.8
Aluminium	'000 tons	19.1	18.3	88.5	81.0	73.3	60.5
Industrial Machinery							
Cotton textiles	Rs crores	12.0	10.4	22.0	20.0	40.0	21.5
Cement	,,	1.1	0.6	4.5	4.5	17.8	3.2
Sugar	,,	11.6	4.4	15.0/16.0	14.0	17.5	7.6
Paper	,,	3.7	neg.	8.5	6.5/7.0	7.3	1.5
Steam Boilers	,,	3.7	0.5	29.0	25.0	16.8	8.0
Machine Tools	,,	8.0	7.0	30.0	30.0	42.7	29.5
Steel and chemical machinery	'000 tons	...	...	80	15/20	60	45
Coal mining machinery	,,	...	...	45	20	n.a.	12
Structural fabrication	,,	508	225	1170	1016	300	300
Precision Instruments							
Industrial and Scientific	Rs crores	3.5	3.0	23.0	7.0	40.0	9.0
Locomotives							
Steam	numbers	300	272	300	1191†	250	203
Diesel	,,	...	...	n.a.	115†	150	58
Electric	,,	...	...	72	164†	72	64
Automobiles	'000 nos.	53.7	55	100	100	74	71
Motor Cycles and scooters	,,	23	18	48	50	75	50
Tractors	,,	neg.	neg.	12	10	15.5	6.0
Ship building	'000 G.R.T.	25/30	9.5	50/60	50/60	50	50
Heavy Electrical Equipment:							
Turbines—steam	MKW	...	...	...	...	0.6	...
Turbines—hydro	,,	...	...	...	...	0.5	...

(*Contd.*)

* Including Goa.

† Figures relate to five year period.

TABLE 40—INDUSTRY AND MINING (*Contd.*)

Item	Unit	1960-61 Achievements Capacity	1960-61 Achievements Output	1965-66 Targets Capacity	1965-66 Targets Output	1965-66 Likely Achievements Capacity	1965-66 Likely Achievements Output
Generators—Thermal	MKW	...	...	...	...	0.6	...
Generators—Hydro.	,,	...	...	...	...	0.5	...
Motors above 150 KW	,,	...	...	...	...	0.5	...
Transaction motors	nos.	...	...	...	...	800	n.a.
Transformers 66 KV and above	M. KVA.	...	...	...	...	4.0	n.a.
Switch gear and control gear	Rs crores	...	...	...	...	18.0	n.a.
Electric Transformers (below 33 KV)	M. KVA.	1.4	1.4	4.3	3.5	3.0	3.5
Electric motors (200 h.p. and below)	million H.P.	1.1	0.7	3.0	2.5	1.4	1.8
Electric Fans	million nos.	0.9	1.1	2.8	2.5	1.5	1.4
Bicycles	,,	1.12	1.07	2.2	2.0§	1.7	1.6
Sewing machines	'000 nos.	267	303	700	700‡	470	428
Radio Receivers	,,	279	282	900	800	392	605
Fertilizers:							
Nitrogenous	'000 tons of N	160.5	99	1016	812	477	227
Phosphatic	,, P202	57.9	54.0	508	406	206	123
Sulphuric acid	'000 tons	490.7	368	1778	1524	1165	653
Soda ash	,,	272.3	152	540	457	363	330
Caustic soda	,,	126	101	406	345	269	218
Drugs and Pharmaceuticals	Rs crores	n.a.	n.a.	n.a.	n.a.	175.0	175.0
Paper and Paperboard	'000	416.6	350	833	711	644	559
Newsprint	,,	30.5	23	152	122	30	30
Petroleum products	million tons	6.0	5.8	10.8	9.9	10.5	9.5
Cotton cloth (mill)	million meters	2.0*	4649	2.25*	5300	2.18*	4401
Jute textiles	'000 tons	1219	1071	1219	1321	1219	1301
Rayon Filament	million kgs.	23.7	21.3	63.6	63.3	43.4	40.0
Staple Fibre	,,	21.8	21.8	34.1	34.1	25.5	34.0
Chemical pulp	'000 tons	2.29	...	100	100	48.0	44.0
Sugar	million tons	2.29	3.03	3.55	3.55	3.25	3.50
Vanaspati	'000 tons	477.5	340	550	584	584	401

§ In addition the small-scale sector is expected to produce 500,000 bicycles.
‡ In addition the small-scale sector is expected to produce 150,000 sewing machines.
* Lakh looms.

Table 41

TRANSPORT AND COMMUNICATIONS—THIRD PLAN: TARGETS AND ACHIEVEMENTS

Item	*Unit*	*1960-61 Achievements*	*1965-66 Targets*	*1965-66 Likely Achievements*
Railway: Freight originating	million tons	156	249	205
Surfaced roads	'000 kilometres	235.8	275.8	284.0
Commercial vehicles on roads	'000 nos.	224	36.5	328
Shipping	million GRT	0.9	1.1	1.5
Major ports (capacity)	,, tons	37.5	49.8	50.2
Post offices	'000 nos.	7.7	9.4	98
Telegraph offices	,,	7.0	9.0	8.6
Telephone connections	,,	463	763	873

Table 42

HEALTH—THIRD PLAN: TARGETS AND ACHIEVEMENTS

Item	*Unit*	*1960-61 Achievements*	*1965-66 Targets*	*1965-66 Likely Achievements*
Institutions:				
Hospitals and dispensaries	'000 nos.	12.6	14.6	14.6
Hospital beds	,,	186	240	240
Primary health units	,,	2.8	5.0	4.8
Family planning centres	nos.	1649	8200	11,474
Personnel:				
Doctors	'000 nos.	70.0	81.0	86.0
Nurses	,,	27.0	54.0	45.0
Auxiliary nurses and midwives	,,	19.9	48.5	35.0
Health assistants and sanitary inspectors	,,	6.0	10.2	18.8

TABLE 43

EDUCATION—THIRD PLAN: TARGETS AND ACHIEVEMENTS

Item	*Unit*	*1960-61 Achievements*	*1965-66 Targets*	*1965-66 Likely Achievements*
General Education:				
Students in schools	million nos.	44.7	65.2	67.7
School-going children as a proportion of children in the respective age groups:				
Primary stage (6-11 years)	per cent	62.4	78.1	78.5
Middle stage (11-14 years)	,,	22.5	28.6	32.2
Secondary stage (14-17 years)	,,	10.6	16.7	17.8
Technical (Engineering) Education:				
Degree courses:				
Institutions	nos.	102	119	133
Intake of students	'000 nos.	13.8	19.1	24.7
Out-turn of qualified personnel	,,	5.7	12.0	10.3
Diploma courses:				
Institutions	nos.	195	271	274
Intake of students	'000 nos.	25.8	38.3	49.9
Out-turn of qualified personnel	,,	8.0	19.5	17.7

A good part of the fresh taxation undertaken at the Centre and in the States during the Third Plan period was, however, absorbed by increases in non-plan expenditures—including, among others, defence and additional emoluments and allowances to Government employees so that the contribution of additional taxation towards Plan resources was smaller than might appear from the total yield. However, in the presentation adopted here, all increases in non-plan expenditure have been allowed for in calculating the balance from current revenues at 1960-61 rates of taxation; consequently, this balance is now estimated at about (-) Rs 470 crores as against the Plan estimate of Rs 550 crores, representing a reduction of Rs 1,020 crores. Taking both the balance from current revenues at 1960-61 rates of taxation and additional resources mobilisation together, the latest estimate for the Third Plan period (Rs 2,410 crores) shows an improvement of Rs 150 crores over the original estimate (Rs 2,260 crores). Even allowing for the shortfall in the anticipated contribution of railways at 1960-61 rates of fares and freights and of other public enterprises at 1960-61 prices of their products as compared to the Plan targets, the aggregate resources made available for the Plan from current revenues show a net improvement of about Rs 75 crores as compared to the original expectation.

The public sector's draft on private savings through market loans, small savings, provident funds and so forth amounted to Rs 1,955 crores, or Rs 290 crores more than the Plan estimate. Of this total, Rs 1,040 crores was in the form of receipts under small savings, State provident funds, compulsory deposits and

annuity deposits—the larger part of which comes directly from earners in the middle and lower ranges. It may also be noted that a substantial proportion of loans from public represents investments from accumulations in provident funds for employees in the private sector. Life insurance funds constitute another major source of investment in Government securities. Altogether, therefore, a good part of the private savings transferred to the public sector comes from people belonging to middle and lower income groups. Like the draft on private savings, the accrual of budgetary resources from external credits and Public Law 480 assistance was also higher than was originally anticipated. However, despite all these increases in receipts, the total budgetary deficits of the Central and State Governments amounted to Rs 1,150 crores for the five-year period. Deficit financing was particularly large in 1965-66, when it amounted to Rs 385 crores. In view of the price increases and other strains which have developed in the economy, it is of the utmost importance to avoid further deficit financing. The scheme of financing for the Fourth Plan has been framed against this background.

INVESTMENT AND OUTLAY

COMPARED to outlay during the Three Plan periods, investment was of the order of 79.59, 79.35 and 84.00 per cent of the outlay. Percentage increase of the investment in the public sector as between the First and Second Plans was 134 while the Third Plan target was 73 per cent higher than Second Plan actual investment. In the private sector, the corresponding percentages were 72 and 32, both sectors put together working at 101 and 54 per cent compared respectively to the First and Second Plan investments. Compared to First and Second Plan investments by the private sector, the target for the Third Plan is lower in proportion to its counterpart in the public sector (Rs 4,300 crores and Rs 6,100 crores). This is in spite of the private sector doing quite well—Rs 1,800 crores investment against zero target in the First Plan and Rs 3,100 crores during the Second Plan against a target of Rs 2,400 crores. It should be borne in mind that figures in Table 44 relate only, to Plan outlay and investment: there are no detailed figures, not even conjectures, about total outlay and total investment in the country.

TARGETS AND ACHIEVEMENTS: THIRD PLAN DATA

WHILE some of the basic, heavy and engineering industries failed to achieve the Third Plan targets and were lagging far behind, some others substantially exceeded targets of installed capacity and production. A latest official review of the performance of the industrial sector for 1965-66 shows that the production of zinc was virtually *nil* against the target of 15,000 tons. Production of steel ingots at 6.5 million tons was 2.8 million tons below target; finished steel at 4.5 million tons was 2.3 million tons less and alloy steel at 30,000 tons was 173,000 tons short of the target. Manufacture of textile machinery, on the other hand, achieved a high rate of development with an installed capacity of Rs 40 crores, nearly double the target. The production of some items of agricultural machinery recorded

substantial gains. The installed capacity and production of power-driven pumps was 200,000 and 230,000 units respectively, exceeding the target of installed capacity by 16,000 units and production by 80,000 units. The production of stationary diesel engines also exceeded the target.

In the sphere of construction equipment manufacture, there was no production of crawler tractors and dumpers. There was a decline in production in the heavy chemicals group. The output of caustic soda at 218,000 tons was 127,000 tons below target. Soda ash at 331,000 tons was 126,000 tons less and sulphuric acid at 664,000 tons was 860,000 tons short of target. The production of synthetic rubber was barely 14,000 tons against a target of 51,000 tons and newsprint production was 30,000 tons against a target of 120,000 tons. The installed capacity target for newsprint was 152,000 tons. The achievements of steel castings and steel forgings taken together at 125,000 tons was short of the target by as much as 75,000 tons. In the case of heavy structurals, the production was a bare 180,000 tons against the target of nearly one million tons. It is, however, hoped that the coming months will reflect a better performance following the virtual completion of licences issued against the $900 million non-project assistance given by the Aid India Consortium.

THE FOURTH FIVE YEAR PLAN: PRELIMINARY

THE DRAFT OUTLINE sets out the substance of the proposals of the Planning Commission for the Fourth Five Year Plan. It was offered for consideration by Parliament and State Legislatures and for eliciting the views of all sections of public opinion. It was also intended to assist the Central Ministries, State Governments and various other concerned organisations in the country in working out their detailed proposals for the Fourth Plan. After taking these into consideration, a final report of the Fourth Five Year Plan will be submitted to Parliament for approval, later in 1968. This Outline gives only the broad contours of the proposed Plan and briefly mentions some of the policy issues involved. These will be elaborated and dealt with more fully in the final report.

The work on the Fourth Plan was commenced some time in the first half of 1962. In all, 43 Working Groups (including 75 Sub-Groups) were set up at the Centre for the purpose. The Planning Commission requested these Groups to formulate their proposals for the Fourth Plan in the light of the progress of the Third Plan and the perspective of development for the ten-year period ending 1975-76. Along with the studies undertaken by the Working Groups, the Perspective Planning Division of the Planning Commission worked out certain Projections for the period 1961-76 with a view to providing a general perspective within which work on the Fourth Plan was to be undertaken. A mid-plan appraisal of the Third Plan was carried out in 1963 and the findings were kept in view while formulating proposals for the Fourth Plan. In the light of all these studies, the Planning Commission presented a Memorandum on the Fourth Plan to the National Development Council in October, 1964. The Memorandum envisaged a total outlay of Rs 21,500 crores at 1963-64 prices. The National Development Council decided to

constitute five committees to consider in detail five important sectors namely, (*i*) Agriculture and Irrigation, (*ii*) Industry, Power and Transport, (*iii*) Social Services, (*iv*) Resources, and (*v*) Development of Hill Areas.

A National Planning Council was set up in February, 1965, comprising specialists, to work ir close and continuous association with the Planning Commission. The Council set up several sub-committees which examined a number of important problems relating to the formulation of the Fourth Plan. Meanwhile, the State Governments also prepared preliminary Memoranda on the Fourth Plan of their respective States.

In the light of these studies and Memoranda, the entire position was reconsidered and a revised Plan with a total outlay of Rs 21,500 crores at 1963-64 prices (including Rs 12,000 crores for public sector investment, Rs 7,000 crores for private sector investment and Rs 2,500 crores for public sector current outlay) was presented to the National Development Council in a document entitled 'Fourth Five Year Plan Resources, Outlays and Programmes' in September, 1965. As the country had to face serious hostilities about the same time, the Council authorised the late Prime Minister to make such adjustments in the Plan that he considered necessary for meeting the emergency and safeguarding the country's security and long-term necessities.

Accordingly, the Planning Commission undertook a series of studies with a view to determining the changes that were needed to be made in the programmes of the Fourth Plan to ensure that the requirements of both defence and development were met, as far as possible, through an intensive development of the productive resources of the country. More recently, the prospects of external credits for financing the Plan were discussed with the representatives of several friendly countries and international agencies. While these studies and discussions were going on, the rupee was devalued on June 6, 1966 and this brought about a major change in the economic situation necessitating a complete re-examination of Plan resources, priorities and outlays.

The Draft Outline takes into account the results of all these exercises. Keeping in view the current uncertainty about resources, it proposes a minimum Plan with a total outlay of Rs 23,750 crores at June, 1966 prices (including Rs 13,600 crores for public sector investment, Rs 7,750 crores for private sector investment and Rs 2,400 crores for public sector current outlay). The increase in the outlay over the figure indicated in the document presented in September, 1965 to the National Development Council is accounted for by changes in some Plan programmes in the value of the rupee and consequential effects. It may be noted that the total outlay of Rs 21,500 crores as presented in the September, 1965 document would have gone up to Rs 25,000 crores as a result of the changes in prices and the devaluation of the rupee if there was no downward adjustment of physical programmes. There was, therefore, a reduction in some of the physical programmes, although an effort was made to maintain the key production targets as far as practicable. As this is likely to have some adverse effect on the long-term growth prospects of the economy,

it will be desirable to reconsider some of these physical programmes and to provide for adequate advance action for the Fifth Plan as and when the resource prospects improve during the Fourth Plan.

Some supplementary programmes in sectors like irrigation, power, village and small industries, technical education and water supply may be considered if the States are in a position to raise resources additional to those envisaged in the present estimates.

Since all these exercises took time and there was also a suspension of some of the foreign credits following the hostilities in September, 1965, the preparation of the Draft Outline of the Fourth Plan was delayed considerably. The Annual Plan for 1966-67, the first year of the Fourth Plan, was, therefore, formulated in advance of the Draft Outline so as to obviate any delay in the implementation of the programmes to be undertaken in that year. This Annual Plan, which had to be prepared under emergency conditions, could not bear the same relationship to the Fourth Plan, as it would have under normal conditions. Certain matters needed immediate attention because of the sharp set-back in agricultural production in 1965-66 due to severe drought conditions. The public sector outlay in the Annual Plan for 1966-67 amounted to Rs 2,082 crores. The Annual Plan for 1966-67 was later made an integral part of the Fourth Plan and the phasing for the subsequent years was determined keeping the Annual Plan for 1966-67 in view.

It is proposed that annual planning will play a much more important role during the Fourth Plan than in the past. A careful evaluation of past performance will form the basis for annual plan allocations in future. No new scheme will be included in the annual plan unless it is fully worked out in all details and unless there is reasonable assurance that requisite resources will be available for its completion as scheduled.

The Fourth Five Year Plan represents a crucial stage in the development of India's economy. It had to consolidate and carry forward the achievements of the three earlier Plans, make up for their shortfalls as far as practicable and prepare the ground for a self-reliant economy to be attained by the end of the Fifth Plan. The tasks set out in this Outline are the minimum that require to be done and were considered well within the capacity of the nation. Every effort has to be made to see that they are fully achieved and, wherever possible, improved upon in the course of the five years of the Fourth Plan.

BALANCE AND CONSISTENCY

The draft outline of the Fourth Five Year Plan presented to the Parliament describes the general considerations shaping the approach to the Fourth Plan, the main features of the proposed programme and the major policy issues involved in the pursuit of specified objectives. Being intended for the public at large, the Draft Outline dealt with these matters in non-technical terms. The basis for arriving at particular targets was not spelt out. Nor was an attempt made to show in detail the internal consistency and balance of the Plan in its different aspects.

The new series of notes and tables is an attempt to bring out, more explicitly and fully than was possible in the Draft Outline, the underlying logic of the Plan and, in particular, the calculations which have gone into building up an internally consistent picture of physical targets, investments, savings and balance of payments.

The elaboration of a detailed and internally consistent progamme corresponding to a given set of overall objectives regarding income, investment, savings and foreign trade and payments, involves first the preparation of a balance of aggregate income and expenditures and their disposition among different categories of final demand. The commodity composition of each category of final demand has then to be estimated. This together with the structure of input requirements for different sectors provides the basis for estimating the internally consistent total requirements of final and intermediate goods. At this stage, it is essential to take into account the overall constraints on imports and the directions and degree of import substitution which is technically possible and economically justified. The required increase in domestic output and capacity for various branches provides the basis for estimating investment needs. The total investment needs so derived must be consistent with the aggregate investment implied in the macro-economic projections. The total investment in its turn must balance with the projected savings and foreign aid. Moreover, a viable plan must not only be consistent and balanced, but also operationally feasible.

When planning has been in force for a number of years, it is not easy to identify a simple logical sequence of steps for evolving an internally consistent plan for a five year period ahead. The actual process of plan formulation is much more involved and is a constant interplay of thinking at aggregative level as well as in regard to specific details of concrete projects. The final Draft Outline incorporates the objectives and strategy which, on a balance of considerations, is deemed to be necessary and feasible. Though for reasons mentioned earlier, the Draft Outline itself does not elaborate on the balance and consistency of the Plan, the detailed work in the Divisions of the Planning Commission and Ministries provides the basis for establishing that the Plan is internally consistent in all essential aspects.

1. Major Objectives

The Draft Outline of the Fourth Plan (April 1966 to March 1971) envisages an increase in the national income of about 5.5 per cent per annum over the level of 1964-65.

The Fourth Plan reaffirms the objectives enunciated in the earlier Plans and lists the following principal tasks:

(*i*) Achievement of self-reliance as early as possible.
(*ii*) Price stability.
(*iii*) Maximisation of agricultural production; and
(*iv*) Family planning programme to be implemented on a massive and country-wide scale.

The Draft Outline proposes an outlay of Rs 16,000 crores, which includes an investment of Rs 13,600 crores, in the public sector. In addition, investment

in the private sector is forecast at Rs 7,750 crores. Total investment in the Fourth Plan would be Rs 21,350 crores or more than twice the investment during the Third Plan. The rate of investment is expected to increase from 14-15 per cent of national income in 1965-66 to 17-18 per cent by 1970-71. The requirement of external credits is estimated at Rs 6,300 crores.

Selected Plan Indicators and sixteen tables hereinunder contain data with regard to outlay, resources and targets contemplated for the Fourth Plan:

SELECTED PLAN INDICATORS (TARGETS)

1. Increase in real national income: per cent per annum	5.5
2. Increase in real *per capita* income	3
3. Increase in agricultural production: per cent	31.3
4. Increase in industrial production: per cent	68.5
5. Outlay and Investment	
(*i*) public sector current outlay: (Rs crores)	2,400
(*ii*) public sector investment ,,	13,600
(*iii*) private sector investment ,,	7,750
Total investment	21,350
6. Investment: percentage distribution	
(*a*) public sector	63.7
(*b*) private sector	36.3
7. Net investment as per cent of national income*	17-18
8. Domestic savings as per cent of national income*	15-16

* As per the perspective presented in the Third Plan document, these are liable to revision.

TABLE 44

PATTERN OF PLAN OUTLAY AND INVESTMENT—PUBLIC AND PRIVATE SECTORS: IV PLAN

Item	*Rupees crores*				
	Public Sector			*Private sector investment*	*Total investment*
	Current outlay	*Investment*	*Total*		
Agriculture, Community Development and Co-operation	835.0	1,575.0	2,410.0	900.0	2,475.0
Irrigation	...	964.0	964.0	...	964.0
Power	...	2,030.0	2,030.0	50.0	2,080.0
Village and Small Industry	140.0	230.0	370.0	320.0	550.0
Organised Industries and Mining	...	3,936.0	3,936.0	2,350.0	6,286.0
Transport and Communications	...	3,010.0	3,010.0	630.0	3,640.0
Social Services and other programmes	1,425.0	1,855.0	3,280.0	1,600.0	3,455.0
Inventories	*	*	*	1,900.0	1,900.0
Total	2,400.0	13,600.0	16,000.0	7,750.0	21,350.0

* No separate provision is made as this part is covered under total outlays.

TABLE 45

PATTERN OF PLAN OUTLAY (CURRENT) IN THE PUBLIC SECTOR

Heads of development	*Amount (Rs crores)*		*Percentage distribution*	
	*Plan provision**	*Actual outlay*	*Plan provision**	*Actual outlay*
Agriculture and Community Development	353.4	289.9	15	15
Agricultural programmes	238.4	210.9	10	11
Community development	115.9	79.0	5	4
Irrigation and Power	647.5	582.9	27	30
Multipurpose projects	255.9	236.6	11	12
Irrigation	213.0	197.5	9	10
Power	178.6	148.8	7	8
Industry and Mining	188.2	96.8	8	5
Large and medium industries, mineral development and scientific research	138.7	54.7	6	3
Village and small industries	49.5	42.1	2	2
Transport and Communications	570.1	517.8	24	26
Railways	267.2	260.0	11	13
Road and road transport	146.8	142.9	6	7
Other transport	96.1	73.5	4	4
Broadcasting and communications	60.1	41.4	3	2
Social Services	531.6	411.9	22	21
Education	170.0	149.0	7	7
Health	137.8	97.9	6	5
Housing	49.1	33.5	2	2
Welfare of backward classes	31.9	31.8	1	2
Rehabilitation	135.7	95.7	6	5
Labour and labour welfare	7.1	4.0	neg.	neg.
Miscellaneous	86.0	60.7	4	3
Total	2,376.8	1,960.0	100	100

* As revised subsequent to the publication of the Fourth Plan, the original provision having been Rs 2,400 crores.

TABLE 46

PATTERN OF PLAN OUTLAY (INCLUDING INVESTMENT) IN THE PUBLIC SECTOR: CENTRE AND STATES IV PLAN

Item	*Rs crores* *Total outlay*	*Centre*	*States and Union Territories*
Agriculture, community development and co-operation	2,410.0	432.0	1,978.0
Irrigation	964.0	44.0	920.0
Power	2,030.0	260.0	1,770.0
Village and small industries	370.0	171.0	199.0
Organised industry and mining	3,936.0	3,751.0	185.0
Transport and communications	3,010.0	2,575.0	435.0
Social services and other programmes	3,280.0	1,303.0	1,977.0
Total	16,000.0	8,536.0	7,464.0

TABLE 47

DISTRIBUTION OF FIXED INVESTMENT OUTLAY: IV PLAN

(Rupees crores)

Item	*Public sector*	*Private sector*	*Total*
A. Manufacturing Industry:			
1. Metals	1,660.0	380.0	2,040.0
2. Machinery and engineering industries	347.0	450.0	797.0
3. Fertilisers and pesticides	273.0	220.0	493.0
4. Intermediate goods	310.0	640.0	950.0
5. Consumer goods	82.0	640.0	722.0
6. Miscellaneous	40.0	220.0	260.0
B. Mining, Mineral oil and related development	891.0	100.0	991.0
Total (A+B)	3,543.0*	2,650.0	6,193.0*

*This takes into account the contemplated saving of Rs 600 crores through a rigorous examination of possible economies in construction.

FOURTH PLAN OUTLAY

TABLE 48 shows the relative position of the likely expenditure in the Third Plan and the outlays now proposed under each head of development in the Fourth Plan.

TABLE 48

COMPARATIVE POSITION OF OUTLAY IN THE FOURTH PLAN AND LIKELY EXPENDITURE IN THE THIRD PLAN

(Rupees crores)

Head of development 1	*Likely expenditure in the Third Plan** 2	*Outlay proposed for the Fourth Plan* 3
1. Agriculture, community development and co-operation	1,103	2,410
2. Irrigation	657	964
3. Power	1,262	2,030
4. Small industries	220	370
5. Organised industry and mining	1,735	3,936
6. Transport and communications	2,116	3,010
7. Education	596	1,210
8. Scientific research	75	140
9. Health	...	492
10. Family planning	357	95
11. Water supply	...	373
12. Housing and construction	110	280
13. Welfare of backward classes	102	180
14. Social welfare	19	50
15. Craftsmen training and labour welfare	72	145
16. Public co-operation	2	10
17. Rural works	41†	95
18. Hill areas and special areas	...	50
19. Rehabilitation	48	90
20. Other programmes	116	70
Total	8,631‡	16,000

* The Third Plan figures have been worked out on the basis of the actuals for the first four years of the Plan and likely expenditure for 1965-66. However, it is felt that the total expenditure may be lower than Rs 8,631 crores.

† Includes Rs 22 crores for local works.

‡ A lumpsum cut of Rs 3 crores was effected by Punjab State Government in 1965-66, break-up of which is not available. Therefore, the expenditure figure will be Rs 8,628 crores.

The distribution of the overall outlay between different sectors, as also between the Third and Fourth Plans, is not strictly comparable. In sectors like industry, transport and power, which have large imported components, the price has gone up substantially in rupee terms as a result of devaluation. If programmes and projects of direct benefit to agriculture included in other sectors are counted,

the total provision for agriculture will be over Rs 5,000 crores in the Fourth Plan and double of that in the Third Plan.

The distribution of outlay between the Centre, States and Union Territories under different heads of development in the Fourth Plan, may be seen in the following table:

TABLE 49

FOURTH PLAN OUTLAY: CENTRE, STATES AND UNION TERRITORIES

(Rupees crores)

Head of Development	*Centre*						
	Schemes to be executed by the Centre	*Schemes to be executed through States*	*Centrally sponsored schemes (Centre's share)*	*Total*	*States*	*Union Territories*	*Total*
1	2	3	4	5	6	7	8
Agriculture, community development and co-operation	150	—	282	432	1,918	60	2,410
Irrigation	44	—	—	44	912[1]	8	964
Power	260[2]	—	—	260	1,717	53	2,030
Village and small industries	151	—	20[3]	171	191	8	370
Organised industry and mining	3,751	—	—	3,751	178[4]	7	3,936
Transport and communications	2,146	348[5]	81	2,575	380	55	3,010
Education	243	—	80	323	815	72	1,210
Scientific research	140	—	—	140	—	—	140
Health	116	—	48	164	291	37	492
Family planning	—	—	86	86	9	[6]	95
Water supply	—	—	3	3	335	35	373
Housing and construction	55	—	85[7]	140	105	35	280
Welfare of backward classes	—	—	90	90	85	5	180
Social welfare	8	—	22	30	16	4	50
Craftsmen training and labour welfare	15	—	70	85	56	4	145
Public co-operation	3	—	4	7	2	1	10
Rural works	—	—	95	95	—	—	95
Hill areas and special areas	—	—	6	6	39	5	50
Rehabilitation	90	—	—	90	—	—	90
Other programmes	40	—	4	44	24	2	70
Total	7,212	348	976	8,536	7,073	391	16,000

[1] Includes provision of Rs 13 crores for Anti-sea erosion works in Kerala and Rs 35 crores for Rajasthan Canal Project.

[2] Includes provision for:

	(Rs crores)		(Rs crores)
(*i*) Atomic power stations	157	(*iii*) D.V.C.	46
(*ii*) Neyveli power station	27	(*iv*) Other schemes	30

[3] For Rural Industries Projects.

[4] Includes Rs 25 crores for Talcher Complex.

[5] Includes provision of Rs 236 crores for national highways, Rs 70 crores for the lateral roads and Rs 42 crores for others.

[6] Outlay for Union Territories included under Centre.

[7] Includes provision of Rs 15 crores for urban development.

INVESTMENT PATTERN IN THE PRIVATE SECTOR IN THE FOURTH PLAN

PERHAPS THE most questionable figures in all the Plan documents relate to targets and achievements in respect of investment in the private sector. The Draft Outline of the Fourth Plan places the target for private sector investment at Rs 7,750 crores. This figure has been widely quoted and debated during recent months. More than a half (55.4 per cent) of this figure is together accounted for by agriculture (Rs 900 crores), inventories (Rs 1,900 crores) and housing (Rs 1,500 crores). As is well known among statisticians and experts, no annual or quinquennial data of any sort whatsoever are collected regularly to find out how much investment takes place in these three sectors in a year or during a Plan period. Perhaps just because the Plan would look incomplete or smaller without figures for these sectors, some estimate is put down in the Plan documents as targets that would be fulfilled. The Plan documents have practically nothing to say about it. The target figures are there only to be looked at and admired. Again, when the Plan period is over, revised estimates for the actual investment are put down and we are told that so many crores were invested under these heads in the private sector. Nobody asks for any proof and nobody gives any. Believe it or not, that is how these crucial figures are planned and then achieved. It is high time, necessary steps were taken to fill the statistical gaps in this vital sector of the Indian economy. The underlying data are given in the following table.

TABLE 50

FOURTH PLAN PRIVATE INVESTMENT TARGETS

Head of Development	*Investment*	
	Rs crores	*Percentage to total*
Agriculture, community development and co-operation	900	11.6
Organised industry and mining, village and small industries	2,670	24.5
Power, transport and communications	680	8.8
Housing	1,500	29.3
Other programmes (education, social welfare)*	100	1.3
Inventories	1,900	24.5
Total	7,750	100.0

* The source mentioned above does not show this item separately. It has been derived by deducting the allocation for Housing (Rs 1,500 crores) from the allocation for the composite head—Social Services and Other Programmes (Rs 1,600 crores).

INVESTMENT RESOURCES IN THE PRIVATE SECTOR DURING THE FOURTH PLAN

THE DRAFT FOURTH PLAN places the plan size (i.e., total resources required) at Rs 23,750 crores. Of this, Rs 11,390 crores (i.e., almost half) is expected to come from the private sector. After paying all the taxes (including the additional taxes), the households are expected to save Rs 8,370 crores, i.e., about three-fourth of the

total of Rs 11,390 crores. The surplus from depreciation provision in the private corporate sector (Rs 910 crores) and the ploughing back of resources in the non-financial corporate sector (Rs 1,165 crores) are expected to add up to another Rs 2,075 crores (about 18 per cent of the total). On the uses side, the Government proposes to draw upon the private savings to the tune of Rs 3,650 crores, leaving Rs 7,740 crores with the private sector for private investment. The statistical data presented below are incomplete in an important respect. In addition to the flows mentioned here, there are sizeable transfers of capital funds from the public to the private sector in the form of co-operative credit and institutional finance for small and large-scale industries. These flows have not been shown here, because the Draft Outline does not give any figures for these flows. All these figures represent the expectations of the planners rather than a reliable estimate of the likely trends. What would actually happen depends considerably on a number of imponderables like the trend in the growth of real national income, movement of prices, shifts in incomes as between various income groups, consumption functions and saving propensities of the various income groups and the degree to which the savings take the form of financial investment and above all the operations of the fiscal and monetary policies.

TABLE 51

INVESTMENT RESOURCES IN THE PRIVATE SECTOR DURING THE FOURTH PLAN

Item	*Rs crores at 1965-66 prices*	*Percentage in total*
Sources		
1. Non-financial Corporate Sector	1,165	10.23
2. Financial Corporate Sector	55	0.48
3. Co-operatives	80	0.70
4. Households	8,370	73.49
5. Retained surplus of the Reserve Bank available for private investment	125	1.10
6. Net inflow of funds from abroad	685*	6.01
7. Surplus available from depreciation provision in the Corporate Sector	910	7.99
Total	11,390	100.00
Uses		
1. Government draft on private saving	3,650	32.05
2. Total (finances available for private investment exclusive of capital transfers to the private sector included under public sector outlay)	7,740	67.95
Total	11,390	100.00

*Equivalent of Rs 435 crores of pre-devaluation rupees.

Note: The figure of capital transfers from the public sector to the private sector is not available separately. Nor is it shown under the break-up of public sector outlay.

TABLE 52

ESTIMATED AVAILABILITY OF RESOURCES FOR PRIVATE INVESTMENT DURING THE FOURTH PLAN PERIOD

Item	*Rs crores at 1965-66 prices*
Private saving	9,670
(*i*) non-financial corporate sector	1,165
(*ii*) financial corporate sector	—
(*a*) specialised financial institutions	15
(*b*) commercial banks	21
(*c*) other financial institutions	7
(*d*) insurance companies	12
(*iii*) co-operatives	80
(*iv*) households	8,370
government draft on private saving	3,650
private saving available for private investment	6,020
retained surplus of the Reserve Bank available for private investment	125
net inflow of funds from abroad	685*
surplus available from depreciation provision in the private corporate sector	910
resources available from private investment (exclusive of capital transfers to the private sector included under the public sector outlay)	7,740
or say	7,750

* Equivalent of Rs 435 crores of pre-devalution rupees.

TABLE 53

FINANCING OF PLAN OUTLAY IN THE PUBLIC SECTOR: FOURTH PLAN

Item	*Amount (Rs crores)* *Plan provision*	*Actual*	*Per cent* *Plan provision*	*Actual*
Surplus from current revenues, at 1950-51 rates of taxation (including additional taxation)	570	637	27	33
Public loans (net)	115	204	6	10
Small savings (net)	225	243	11	13
Railways (contribution)	170	115	8	6
Unfunded debt and miscellaneous capital receipts	178	239	9	12
External assistance	521	189	25	9
Deficit financing	290	333	14	17
Total resources: Plan Outlay	2,069*	1,960	100	100

*Later revised to Rs 2,378 crores.

TABLE 54

ESTIMATES OF FINANCIAL RESOURCES: THIRD AND FOURTH PLANS

Item	*Third Plan*			*Fourth Plan*		
	Centre	*States*	*Total*	*Centre*	*States*	*Total*
Balance from current revenues at pre-plan rates of taxation	—650	180	—470	2,090	920	3,010
Contribution of railways on the basis of pre-plan rates of fares and freight charges	80	—	80	260	—	260
Surplus of other public enterprises on the basis of pre-plan prices of products	290	105	395	760	320	1,080
Loans from public (net)	420	495	915	700	800	1,500
Small savings	220	365	585	360	640	1,000
Unfunded debt (net)	240	100	340	400	165	565
Compulsory deposit and annuity deposits (net)	115	—	115	150	—	150
Miscellaneous capital receipts (net)	505	—320	185*	1,330	—665	665
Budgetary receipts corresponding to external credits						
(*a*) other than those under PL 480	1,575	—	1,575	4,340†	—	4,340†
(*b*) PL 480 aid	880	—	880	360†	—	360†
Economies in non-plan expenditure	—	—	—	85	250	335
Additional mobilisation of domestic resources	2,270	610	2,880	1,745	985	2,730
(*a*) measures adopted in 1966-67	—	—	—	805	125	930
(*b*) further measures to be adopted in the remaining period of the Fourth Plan	—	—	—	1,100	700	1,800
(*c*) Adjustment for accrual of resources to States on account of additional taxation undertaken by the Centre in 1966-67	—	—	—	—160	+160	—
Deficit financing	1,025	125	1,150	—	—	—
Aggregate resources	6,970	1,660	8,630	12,580	3,420	16,000

* Inclusive of receipts from Steel Equalisation Fund.

† These figures are at the new rate of exchange. Consequently they are not comparable with the figures of the Third Plan period which are in terms of the pre-devaluation rupee.

7. MAJOR PHYSICAL TARGETS

TABLE 55

AGRICULTURE: FOURTH PLAN

Item	*Unit*	*1970-71 targets*
Foodgrains	million tons	120
Cotton	,, bales	8.5
Jute	,, ,,	9.1
Sugarcane (gur)	,, tons	13.5
Oilseeds	,, ,,	10.7
Tobacco	'000 tons	475

TABLE 56

IRRIGATION AND POWER: FOURTH PLAN

Item	*Unit*	*1970-71 targets*
Major and medium irrigation schemes:		
Potential at channel outlets	million hectares (gross)	12.5*
Utilisation	do	9.2*
Electricity (installed capacity)	million kw.	20.0
No. of towns and villages to be electrified	'000 nos.	110.0

* The figures are cumulative for the scheme taken up in the first three plans.

TABLE 57

EDUCATION : FOURTH PLAN

Item	*Unit*	*1970-71 targets*
General education:		
Students in schools	million nos.	97.5
School-going children as a proportion of children in the respective age groups:		
primary stage (6-11 years)	per cent	92.5
middle stage (11-14 years)	,,	47.4
secondary stage (14-17 years)	,,	22.1
Technical Education:		
Engineering and technology—admission capacity:		
Degree courses	'000 nos.	30.0
Diploma courses	,,	68.0
Agriculture:		
Degree courses (intake)	,,	11.5
HEALTH		
Institutions:		
Hospital beds	,,	300
Primary health units	,,	5.2
Personnel:		
Doctors	,,	131
Nurses	,,	87-90
Registered mid-wives	,,	95

TABLE 58

INDUSTRY AND MINING—FOURTH PLAN: TARGETS

Item	*Unit*	*1970-71 targets*
Coal	million tons	106.0
Iron ore	„	54.0
Finished steel	„	8.8
Pig iron (for sale)	„	3.0
Aluminium (virgin metal)	'000 tons	330.0
Mechanical and Electrical Engineering:		
Cement machinery	Rs crores	20.0
Sugar machinery	„	16.0
Machine tools (graded)	„	105.0
Ball and Roller bearings	million nos.	30.0
Diesel engines (stationary)	'000 nos.	200.0
Tractors (agricultural)	„	35.0
Electric transformers (3kv. and below)	'000 kv.	500
Electric cables (ACSR Conductors)	'000 tons	120.0
Railway Locomotives (steam, diesel and electric)	nos.	417
Chemicals:		
Fertilisers		
(*i*) Nitrogenous	'000 tons of N	200
(*ii*) Phosphatic	„ P 202	100
Sulphuric acid	'000 tons	240
Soda ash	„	60
Caustic soda	„	50
Other Industries:		
Sewing machines	'000 nos.	900
Bicycles	„	350
Electric fans	million nos.	3.5
Newsprint	'000 tons	150
Paper and paper board	„	900
Cotton textiles (mill-made)	million metres	5486
Sugar	'000 tons	4500
Cement	million tons	20.0
Petroleum products	„	20.0
Transport and communication:		
Railways: freight carried	million tons	308
Surfaced roads	'000 kms.	334
Commercial vehicles on roads	'000 nos.	525
Shipping	million GRT	3.00
Major ports (capacity)	„ tons	82.5
Post offices	'000 nos.	110
Telegraph offices	„	10.6
Telephone connections	„	1523

PHYSICAL TARGETS IN THE FOURTH PLAN

A SYNOPTIC VIEW of the Plan may be obtained from the selected Plan targets in the table below:

TABLE 59

SELECTED TARGETS: FOURTH PLAN

Item	Unit	*1964-65 (actuals)*	*1965-66 (estimates)*	*1970-71 (targets)*	*Percentage increase in 1970-71 over 1964-65*	*Percentage increase in 1970-71 over 1965-66*
1. *Agriculture and Co-operation*						
Index number of agricultural production	1949-50 = 100	158.0	158.3*	207.8	31.5	31.3
Foodgrains production	million tons	89.0	90.0†	120.0	34.8	33.3
Nitrogenous fertilisers consumed	'000 tons of N	555	600	2,000	260.4	233.3
Phosphatic fertilisers consumed	'000 tons of P 205	149	150	1,000	571.1	566.7
Short and medium term loans advanced	Rs crores	331	400	650	96.4	62.5
2. *Industry*						
Index number of industrial production‡	1956 = 100	174.7	181.6	306.0	75.2	68.5
Production of:						
Steel ingots	million tons	6.1	6.2	11.7	91.8	88.7
Aluminium	'000 tons	54	65	330	511.1	407.7
Machine tools (graded)	value in Rs crores	20.0	23.0	105	425.0	356.5
Sulphuric acid	'000 tons	695	664	2,400	245.3	261.4
Petroleum products	million tons	8.4	9.9	20	138.1	102.0
Cloth:						
Mill made	million meters	4,676	4,434	5,486	17.3	23.7
Handloom, power loom and Khadi	,,	3,147	3,146	4,572	45.3	45.3
Total	,,	7,823	7,580	10,058	28.6	32.7
3. *Minerals*						
Iron ore	million tons	15.1	23.0	54	257.6	134.8
Coal	,,	64.4	70.0	106	64.6	51.4
4. *Power*						
Installed capacity	million kw.	8.6	10.2	20	132.6	96.1
5. *Transport*						
Railways: freight carried	million tons	194	205	308	58.8	50.2
Surfaced roads	'000 kms.	275	284	334	21.5	17.6
Road transport: commercial vehicles on road	'000 nos.	303	320	525	73.3	64.1
Shipping: tonnage	lakh GRT.	14.0	15.4	30	114.3	94.8

TABLE 59—*Contd.*

Item	*Unit*	*1964-65 (actuals)*	*1965-66 (estimates)*	*1970-71 (targets)*	*Percentage increase in 1970-71 over 1964-65*	*Percentage increase in 1970-71 over 1965-66*
6. *Education*						
General education:						
Students in schools	million nos.	63.0	67.7	97.5	54.8	44.0
Technical Education: Admission capacity						
Degree	'000 nos.	24	25	30	25.0	20.0
Diploma	,,	46	50	68	47.8	36.0
7. *Health*						
Hospital beds	'000 nos.	229	240	300	31.0	25.0
Doctors-practising	,,	82.3	86.0	131	59.2	52.3
8. *Per capita levels*						
Foodgrains production	ounces *per capita* per day	15.4	15.4§	18.1	17.5	17.5
Cloth	metres *per capita* per annum	15.1	14.9	16.9	11.9	13.4

* Based on 1965-66 base level (potential). Actual Index—131.7.
† Based on potential created. Actual was 72.3 million tons.
‡ Relates to calendar years.
§ Based on potential created. Actual was 12.4 ounces.

DEVELOPMENTAL AND NON-DEVELOPMENTAL EXPENDITURE

GREAT INTEREST should centre on the first few pages of the audit report which gives a consolidated account of the development and non-development expenditure during the Third Five-year Plan period. Of these, one tabular statement giving the entire picture merits special attention. It shows that non-development expenditure has increased from Rs 667 crores in 1961-62 to Rs 1,067 crores in 1965-66. However, as a proportion of the overall expenditure, it shows a decline from 42.82 to 36.24 per cent. If the entire total for the five-year period is taken, it works out at 37.98 per cent.

Development expenditure has also increased from Rs 592 crores to Rs 994 crores. The point, however, is that this expenditure shows a steady decline from 36.45 to 33.73 per cent during the five-year period. While in absolute terms, non-development expenditure continues to be higher than development expenditure, the decline in the percentage of both development and non-development expenditure may look somewhat puzzling. But it need not be so. The fact is that

there is a consistent rise in defence expenditure, which has grown from Rs 331 crores in 1961-62 to Rs 585 crores in 1965-66, that is, from 19.73 to 30.03 per cent of the overall expenditure. Whether there was any escape from an expenditure of this magnitude is a different question.

Even so, we cannot ignore the fact that while cumulatively, the additional revenue (on revenue account) received during the four years ending 1965-66 amounted to Rs 3,230.40 crores (of which Rs 2,493 crores were in tax revenue). Leaving aside the defence expenditure, the cumulative increase in non-development expenditure (on revenue account) amounted to as much as Rs 107.64 crores, and the additional development expenditure was only Rs 331.16 crores. This is an eloquent commentary on the magnitude of the taxation effort and on the relative niggardliness of the benefits accruing from the immense sacrifice involved. This should be seen in juxtaposition with the fact that during the Third Plan period under revenue receipts, there was an excess over the actual budget estimates of nearly Rs 741 crores. In any discussion over the mobilisation of resources—and this is frequent—it is better to keep in perspective the picture presented by these revealing figures.

MAINTENANCE AND CAPITAL IMPORTS: FOURTH PLAN

THE IMPORT bill for the Fourth Plan on both maintenance and capital accounts—excluding food assistance from the United States—may exceed the original estimate of Rs 7,650 crores (in pre-devaluation terms) by about Rs 300 crores according to the latest official assessment. The original import estimate included Rs 5,200 crores on account of maintenance imports and Rs 2,450 crores for capital goods imports. The capital import estimate does not include payments in regard to projects to be started in the Fifth Plan, for which advance action has to be initiated in the Fourth Plan itself. Of the projected increase, Rs 244 crores is estimated to be on account of maintenance imports and Rs 50 crores on capital account. Requirements of capital goods imports would increase further if there is delay in the scheduled production of plant and machinery in the country. The maintenance import requirements are expected to increase because of the increase in the freight bill which will go up by Rs 144 crores. The additional fertiliser imports are estimated to cost Rs 80 crores and insecticides Rs 50 crores. The Planning Commission has, however, decided to retain the original estimate of Rs 5,200 crores for maintenance imports in the hope that vigorous import substitution efforts that would be taken in the course of the Plan period would not allow the total maintenance import bill to rise. However, even in fixing the original maintenance import target, the Commission had taken into account the possibilities of import substitution. Similarly, the Commission hopes that efforts would be made to contain capital goods imports within the original estimate of Rs 2,450 crores through accelerated implementation of Plan projects and the maximum use of indigenous machinery the quality of which would be maintained according to desired standards. A commodity-wise breakdown of the maintenance import estimates shows that metals, including iron and steel and non-ferrous metals, constitute about 25

per cent of the total requirements on this account during the Fourth Plan. Components and spares for machinery and transport equipment account for another 19.8 per cent, fertilisers 12.4 per cent and crude oil and petroleum 9 per cent. These categories of commodities are thus expected to form two-thirds of the total requirement of maintenance imports during the Fourth Plan.

OTHER PROGRAMMES

PROGRAMMES included under this head are: statistical programmes of the Department of Statistics of the Central Government and States' Statistical Bureaux, study of natural resources, research programmes in the field of social sciences, training for management, administration and planning, evaluation organisations, manpower units, schemes for social assistance and welfare of government employees, State capital projects, expansion of government printing capacity and plan publicity programmes both at the Centre and in the States.

SOME ASPECTS OF THE FOURTH PLAN

WHILE WELCOMING the commendable features of the draft outline of the Fourth Plan such as assurance of avoidance of deficit financing, commitment that public sector projects would improve their efficiency so as to yield 11-12 per cent on investment, curtailment of non-Plan and non-developmental expenditure, annual planning, no automatic linkage between wages and cost of living, etc., public opinion is of the view that it requires drastic modification in regard to Plan size, estimates of resources and of growth rates, and certain techniques of planning. Many of the targets envisaged are need-based rather than resources-based, whether internal or external. This approach to planning in the past resulted in serious inflation necessitating the unpleasant step of devaluation. Also, as in the previous Plans, no provision has been made in the draft outline of the Fourth Plan for possible rise in prices in the financial outlays for individual projects, especially in the context of devaluation and likely rise in prices because of contemplated further taxation. In the context of the inflationary economic condition prevailing at present in the country, the supreme need is to keep prices under check and establish conditions which would ensure stability of the newly established value of the Rupee after devaluation. To ensure this, not only no deficit financing should be resorted to, but also no further large doses of taxation by way of excise or any other form of taxes should be injected as they will generate further inflationary pressures on the prices and cost structure. The estimates of financial resources for the public sector from:

(*i*) Surpluses from current revenue at pre-Plan rates of taxation (Rs 3,010 crores);

(*ii*) Surpluses from public enterprises other than railways at pre-Plan prices of products (Rs 1,085 crores);

(*iii*) Small savings (Rs 1,000 crores); and

(*iv*) Additional mobilisation of domestic resources (Rs 2,730 crores),

are over-optimistic and not based on realistic assessment of the present economic situation.

In the same manner, it is doubtful whether the private sector will be able to muster Rs 7,750 crores envisaged for it in the Fourth Plan. The annual investment in the private sector which is estimated to have gone up from Rs 800 crores to Rs 900 crores during the Third Plan period cannot be expected to double itself during the Fourth Plan, which is necessary if the outlay target is to be achieved. Further, with the known preference of aid-giving countries in favour of project aid, it is doubtful whether sufficient external resources will be available for non-project imports.

Public opinion urges upon the Government and the Planning Commission:

(*i*) Not to exceed the Fourth Plan outlay beyond Rs 20,000 crores in view of the overall paucity of external and internal resources with an allocation of Rs 13,000 crores for the public sector and Rs 7,000 crores for the private sector;

(*ii*) To divide up the Plan into two parts:

(*a*) priority I (hard core) and

(*b*) priority II (outer core).

The execution of Part I should be a 'must', while that of the Part II should depend upon the resources available;

(*iii*) To avoid any further doses of direct or indirect taxation in the light of the saturation point which has been reached in individual and corporate sectors;

(*iv*) To remove the present deficiency in the shortage of trained personnel of high calibre by making a careful assessment of technical personnel, as soon as a project report is prepared and arrange for immediate recruitment and training of the requisite number of high calibre technical personnel;

(*v*) To drastically curtail all non-Plan and non-development expenditure, particularly by economising on public administration and avoiding all grandiose structures;

(*vi*) To indicate in the Plan documents for each project in the public or in the private sector, not only the total outlay but also the foreign exchange component so as to facilitate appropriate modifications in annual planning in the light of prevailing foreign exchange situation;

(*vii*) To make the fullest use of the private sector in the implementation of industrial plan projects such as power boilers, structural shops, fabrication shops for plants for the fertilisers and chemical industries by modifying, if necessary, the Industrial Policy Resolution with a view to securing a better balance between the two sectors and encouraging healthy competition between them;

(*viii*) To give the highest priority to export-oriented and import-saving industries, as a logical corollary to devaluation, in the allocation of maintenance imports;

(*ix*) To delicense all essential consumer goods industries and remove all unnecessary controls and restrictions which hinder their production;

(*x*) To conserve the resources of the public sector for promoting agriculture and infrastructural facilities for industries such as transport, power, etc., rather than dissipating the same in starting consumer goods industries and in the state trading of commodities, both retail and wholesale;

(*xi*) To reduce commodity taxation through amalgamation, wherever possible, of excise duty, sales tax, octroi, etc., so that their combined incidence will not exceed a specified percentage of the cost of production and will fall on the consumer at the last stage of purchase; and

(*xii*) To increase the revenue collection by increased production rather than by further doses of taxation.

In order to avoid the sharp divergence between the rate of investment and rate of return achieved, and the lagging of physical targets behind planned outlays in the public sector projects, it is necessary to set up suitable machinery such as an Appraisal Cell in the Planning Commission and Implementation Cell in large individual Plan projects to maintain a vigorous drive in execution based on the formation of a realistic assessment of the resource potential of our economy and to adjust the planned outlays, in the light of such an assessment, from year to year.

FOURTH PLANS OF STATES

THE CENTRE will meet almost half of the States' Fourth Plan outlays, as finalised by the Planning Commission. This means a reduction in the Centre's share of assistance to the States' Plan outlays, compared with the Third Plan, when the former's share was a little more than 60 per cent. On the other hand, the State Governments have agreed to raise Rs 3,500.3 crores in all for Fourth Plan schemes. This includes current revenues, additional mobilisation of resources and loans from the open market. The total Fourth Plan outlay of all the States amounts to Rs 7,071.7 crores, of which Central assistance will be to the tune of Rs 3,571.4 crores. This excludes Plan outlays of Union Territories, which are allocated Rs 393.48 crores as their total outlay. The final figures of Central assistance to States show an increase of Rs 27.7 crores compared with Rs 3,500 crores envisaged in the draft outline of the Fourth Plan. The Fourth Plan outlays of each State, with the resources they were prepared to raise and the amount of Central assistance are respectively (in crores of rupees):

Andhra Pradesh 522.0, 242.0, 280.0; Assam 190.0, 15.0, 175.0; Bihar 545.0, 253.0, 292.0; Gujarat 466.0, 281.0, 165.0; Haryana 168.4, 77.0, 91.4; Jammu and Kashmir 126.0, 19.0, 126.0; Kerala 293.0, 11.0, 182.0; Madhya Pradesh 458.0, 170.0, 288.0; Madras 564.0, 314.0, 250.0; Maharashtra 951.0, 690.0, 261.0; Mysore 421.0, 199.0, 222.0; Orissa 300.0, 150.0, 150.0; Punjab 280.0, 185.0, 95.0; Rajasthan 313.5, 86.5, 227.0; Uttar Pradesh 925.8, 430.8, 495.0; West Bengal 538.0, 293.0, 245.0 and Nagaland 30.0, 3.0, 27.0.

The Plan outlays of Union Territories (in Rs crores) are as follows:

Andaman and Nicobar Islands 11.00, Chandigarh 7.59, Dadra and Nagar Haveli 2.40, Delhi 155.64, Goa, Daman and Diu 40.24, Himachal Pradesh 94.38, Laccadive, Amindive and Minicoy Islands 2.26, Manipur 24.27, N.E.F.A. 12.65, Pondicherry 12.25 and Tripura 30.80.

CENTRE'S CONTRIBUTION TO STATE FINANCES

DURING THE sixteen years from 1950-51 to 1966-67, the annual transfer of resources from the Centre to the State Governments increased by about 12 fold in absolute terms—from Rs 144 crores to Rs 1,708 crores. In 1950-51, of the total expenditure of the States, 30 per cent was financed with Central assistance—by 1966-67 the figure had shot up to 58 per cent. The resources transferred from the Centre to the States are officially grouped under several heads. If we ignore the accounting and legislative conventions, and concentrate on the economic significance of these transfers taken as a whole, it can be said that during the First Plan the total transfers far exceeded the entire Plan expenditure of the State Governments. Thus, if not in theory, certainly in fact, the Centre has been financing and still continues to finance not only the Plan expenditure of the States but also quite a sizeable part (about one-third in 1966-67) of the non-Plan expenditure of the State Governments. These facts clearly show that the constant and almost universal complaints of the State Governments about the stinginess of the Centre are without any foundation whatsoever. An analysis of the relevant data also underlines the great need on the part of the States to match their propensity to spend. The transfers of resources from the Centre to the States are usually classified into (*a*) statutory transfers, and (*b*) non-statutory transfers. Resources transferred in accordance with specific provisions of the Constitution are called statutory transfers (e.g., share in the net yield from income-tax and Union excise duties and certain revenue grants under Articles 273, 275 (1) and 278 of the Constitution based on the recommendations of Finance Commission). Non-statutory transfers are mainly for financing the States' plan outlays: in recent years, Central assistance has also been extended to enable the States to clear their heavy over-drafts from the Reserve Bank. The steep rise in the transfer of resources from the Centre to the States during the last 16 years can be seen in the following table:

TABLE 60

RESOURCES TRANSFERRED FROM CENTRE TO STATES UPTO 1966-67

(Rs crores)

Year	*Shared taxes*	*Grants*	*Loans*	*Total*
1950-51	50	32	62	144
1955-56	81	48	262	391
1960-61	179	224	339	742
1965-66	276	351	819	1446
1966-67	373	419	916	1708

The extent of the increasing reliance of the States upon the Central Government and the growing importance of the non-statutory grants in financing the plan expenditures of the States can be seen from the summary data given in the following table:

TABLE 61

EXTENT OF STATES' RELIANCE ON CENTRE UPTO 1967-68

(Percentages)

Period	*Total resources transferred as per cent of total expenditure of States*	*Non-statutory resources transferred as per cent of plan expenditure of States*
1950-51	30.3	58.2
First Plan	41.7	67.8
Second Plan	49.1	97.4
Third Plan	52.1	99.8
1966-67	57.7	114.0
1967-68	N.A.	122.5

While about 68 per cent of the First Plan of States was met out of Central assistance, their Second and Third Plans were almost entirely financed by the Centre. In 1966-67, the non-statutory devolutions alone accounted for 114 per cent of the Plan expenditure of States—in 1967-68, the percentage is likely to be about 123 (interim budget). Such a position clearly means that the non-statutory transfer of resources from the Centre, which are normally given for meeting the Plan outlays of the States, are now being extended to finance non-Plan expenditure also. (See Tables 62 and 63).

TABLE 62

RESOURCES TRANSFERRED FROM CENTRE TO STATES UPTO 1967-68

(Rs crores)

	First Plan	*Second Plan*	*Third Plan*	*1966-67 (RE)*	*1967-68 (BE)*
A. Statutory Transfers:[1]					
I. Share in Central Taxes[2]					
1. Income-tax	278	375	555	137	132
2. Union Excise Duties	46	281	615	231	231
3. Estate Duty	—	13	26	5	7
4. Taxes on railway passenger fares	3	42	—	—	—
Total I	327	711	1196	373	370
II. Revenue Grants[3]	104	227	331	152	149
Total A	431	938	1527	525	519
	(30.8)	(32.7)	(27.3)	(30.7)	(33.7)

TABLE 62—*Contd.*

	First Plan	*Second Plan*	*Third Plan*	*1966-67 (RE)*	*1967-68 (BE)*
B. Non-Statutory Transfers:[4]					
I. Revenue Grants					
1. Agricultural and allied subjects	17	52	109	45	74
2. Community Development Projects	15	67	114	19	19
3. Education and Scientific Departments	15	56	172	27	29
4. Medical and Public Health	7	51	103	25	35
5. Industry and Supplies	2	17	29	4	4
6. Others	88	198	293	84	85
Total I	144	441	820	204	246
II. Capital Grants	26	78	152	63	48
III. Loans:					
1. Irrigation and multipurpose river schemes	252	310	361	97	73
2. Agriculture and allied subjects	110	173	369	178	233
3. Community Development Projects	14	47	77	11	11
4. Natural calamities	2	13	32	58	25
5. Sharing of small savings	154	230	350	85	95
6. Others[5]	266	638	1,912	487	292
Total III	798	1,411	3,101	916	729
Total B	968	1,930	4,073	1,183	1,023
	(69.2)	(67.3)	(72.7)	(69.3)	(66.3)
Total A+B	1,399	2,868	5,600	1,708	1,542
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

[1] Resources transferred in accordance with specific provisions in the Constitution of India.

[2] At present (following the recommendations of Fourth Finance Commission) these shares are 75 per cent of the net yield from income-tax and 20 per cent of that from Union excise duties on all articles, except certain regulatory duties. Eighty per cent of this divisible pool is distributed, among States, on the basis of population. The remaining 20 per cent in the case of income-tax is distributed on the basis of collection and that in the case of Union excise duties on the basis of relative economic backwardness of States. The additional duties of excise on sugar, tobacco and cotton, woollen and artificial silk fabrics are distributed among States partly as guaranteed amounts *in lieu* of the loss on account of abolition of sales-tax on these commodities and partly in accordance with the percentages prescribed in the Act. Estate duties are collected by the Centre and distributed among the States in accordance with prescribed percentages.

[3] Grants under Articles 273, 275 (1) and 278 of the Constitution of India: the amount of these grants is based on the recommendations of the Finance Commission.

[4] The non-statutory transfers consist of *ad hoc* grants on revenue and capital accounts and loans. These transfers are mostly for meeting the expenditure on States' Plan schemes: a part of the loans are for expenditure on natural calamities and for tiding over temporary ways and means difficulties of States.

[5] Include mainly miscellaneous development schemes.

TABLE 63

EXTENT OF STATES' RELIANCE ON CENTRE UP TO 1967-68

	1950-51	*First Plan*	*Second Plan*	*Third Plan*	*1966-67 (RE)*	*1967-68 (BE)*
1	2	3	4	5	6	7
1. Total Expenditure of States (Rs crores)[1]						
1. Non-plan	342	1,925	3,862	6,670	1,924	N.A.
2. Plan	134	1,427	1,981	4,081	1,038	835
Total 1	476	3,352	5,843	10,751	2,962	N.A.
2. Resources Transferred from Centre to States (Rs crores)						
1. Statutory	66	431	938	1,527	525	519
2. Non-statutory	78	968	1,930	4,073	1,183	1,023
Total 2	144	1,399	2,868	5,600	1,708	1,542
3. Total resources transferred as percentage of total expenditure of States (per cent)	30.3	41.7	49.1	52.1	57.7	N.A.
4. Non-statutory resources transferred as percentage of plan expenditure of States (per cent)	58.2	67.8	97.2	99.8	114.0	122.5

[1] Includes expenditure both on revenue and capital accounts: while revenue expenditure excludes transfers to funds, capital expenditure excludes State trading transactions and all debt and deposit items except loans and advances by States.

THE FOURTH PLAN AND ALLOCATION OF FUNDS TO STATES

THE ACTUAL resources for the Fourth Plan are likely to fall short of the estimates in the Draft Plan Outline. The Prime Minister has urged the Chief Ministers that in presenting their draft State Fourth Plans, they must abide by the scheme of allocation of Central assistance proposed by the Planning Commission, as 'there seems little prospect of increasing the total quantum of Central assistance to the States'. 'The overall estimates of resources which have been taken into account in the draft outline are, according to the Finance Ministry, more optimistic than current expectations justify. There is every prospect of an increase in defence expenditure and in dearness allowance, which would eat into the totality of resources available at the Centre. The expected receipts on account of foreign aid, including PL 480 supplies, are also likely to have shortfalls'.

Although the National Development Council's Committee, which is to decide on the quantum and pattern of Central assistance to the States, as also the Centre-State distribution of Plan schemes, has yet to submit its report, the Planning

Commission has indicated to each State the likely level of Central assistance that would be available to it for its Fourth Plan. These allocations have been made on the basis of certain fundamental considerations, including the States' own estimated resources and their development needs. But lately several Chief Ministers have written to the Prime Minister direct, seeking an increase in their share of Central assistance. These demands can only be met either by an internal re-allocation of the total quantum of Central assistance to the States or by an increase in the total quantum of such assistance. Neither of the alternatives seems to be feasible. The Prime Minister has emphasised that the States should have far more freedom to adapt patterns of expenditure to local conditions and needs. However, certain programmes of national priority like family planning, are not to be scrapped. The Prime Minister has further emphasised that the State plans must maintain the necessary balance between various sectors, as lopsided development might prove harmful. She has suggested to the Chief Ministers that for finalising their plans, the State machinery for planning should be suitably strengthened by bringing in non-official experts if necessary. Meanwhile, discussions on State plans between the Planning Commission and Central Ministers on the one hand and State representatives on the other started on 14 October 1966. The first State Plan taken up for discussion was that of West Bengal.

REGIONAL AND URBAN PROBLEMS

Apart from the completion of the master plans and regional plans already in hand, it is proposed to take up the preparation of plans for 157 towns and cities and 49 tourist and pilgrim centres. Detailed plans will also be formulated for certain regions in the country which have been growing fast and where haphazard growth has taken place creating serious problems. Urban research cells in the States, as well as at the Centre, are being set up. It is also proposed to include in the Fourth Plan, provision for implementing certain important aspects of city development plans. It is necessary to evolve a rational urban land policy in order to control the use and value of land. Steps to this end will be taken in the Fourth Plan. A provision of Rs 28 crores has been made for regional and urban development in the draft Fourth Plan.

FOURTH PLAN FINALISATION FAR OFF

There is no prospect now of an early meeting of the National Development Council to finalise the Fourth Plan which is running its uncertain course in the second year. For at least half of the current year, the NDC and Parliament will not be able to set their seal of approval on the Plan Report. The Prime Minister had intended the document to be endorsed by the NDC in January before the elections, but a meeting of the NDC was then found impracticable because of the preoccupation of the Chief Ministers with campaigning. Since then, other developments have intervened. The Budget session of Parliament kept the Centre busy until July and the State Chief Ministers were also able to spare little time until

their own budgets had been passed. But, even more important was the fact that the Centre and the Planning Commission were far from sure how soon and at what pace the economy would stage a recovery. The last *kharif* and the current *rabi* having been damaged to a great extent because of drought the next *kharif* should play a crucial role in the revival of the economy.

It is very much hoped that, after two successive droughts, the new *kharif* will be a bumper one and help boost the economy. Until the prospects of the *kharif* are known, there is reluctance to give a final shape to the Plan. Moreover, there is yet no clear idea of the scale of foreign aid for the Plan as a whole and an indication has not been forthcoming from the 'Aid India' consortium of the extent to which it will underwrite the foreign exchange requirements of the Plan. The Plan is, therefore, being implemented in effect as one-year plans, at a much lower levels of investment than warranted by the total overall outlay decided upon in the Draft Outline. The stringency of resources in the first year and the second year (which is the current year) have necessitated pruning of outlays and the Planning Commission is chary of thinking far too ahead in the present situation of budgetary stringency. The Commission has reacted well to the Chief Ministers' discussion on the Plan. The discussion generally underlines the need for maintaining the tempo of development and planning for high levels of investment and growth. This was sweet music to the ears of the Commission which has been pursuing the line of thought that the cost of a slowdown in investment and growth would be terrible in terms of hardship caused by deepening of the recession and consequent closures and unemployment. Moreover, the long-term perspective also demands continuing investment at a high level. For instance, it takes two years to place orders and get projects going, and investment on transport and power can be shirked at this stage only at the cost of shortages in these sectors in the fourth year of the Plan. The Commission is happy that the need for and strategy of planning have not been questioned by the non-Congress Chief Ministers, but it does expect them to urge greater flexibility and discretion in formulating their own plans when there is a final round of talks with them towards the end of the year and early next year on annual plans. Meanwhile, the plans for the reorganisation of the Planning Commission are awaiting the report of the Administrative Reforms Commission. In its interim report, the A.R.C. has discussed the reorganisation in general terms, but it has submitted a special report on the Commission itself.

UNCERTAINTY HOLDS UP PLANNING

UNCERTAINTY prevails in the Planning Commission in the absence of a clear Government mandate on its future set-up. Work on the elusive Fourth Plan is held up for want of fresh directions. One thing is, however, certain. It will again not be the Fourth Plan but the annual plan for the current year (1967-68) which will be finalised first. Last year's annual plan was also prepared in advance of the Fourth Plan, which was bedevilled by suspension of foreign aid following the conflict with Pakistan. But the paradox of planning has assumed new dimensions

this year. For the year has started without even an annual plan at hand. Meanwhile, all the earlier estimates of resources for the Fourth Plan made by the Commission have been upset by the two successive droughts, stagnant industrial activity, inflation and the sizeable deficit financing resorted to by the Centre and the States last year.

On the basis of the plan resources indicated in the Centre's interim budget, total Central and State outlay on this year's plan would be in the neighbourhood of last year's estimated expenditure of Rs 2,200 crores. Normally additional levies each year provide Rs 200 to 300 crores for plan programmes. However, with the present economic recession, it is doubtful whether this would be possible this year, especially if deficit financing is to go. Even if some step-up should be contemplated, the increase would be much below the average annual progression assumed by the Planning Commission within the total public sector outlay of Rs 16,000 crores indicated in the Draft Plan Outline. In other words, lower investments in the first two years of the Fourth Plan are bound to reduce the total public sector investment during the Plan.

REVISED PLAN OUTLAY FOR 1966-67

THE SMALLER annual Plan for 1966-67, finalised by the Planning Commission, was a token of the earnestness of the Government to check the inflationary forces in the economy. The 1966-67 Plan, the first year of the Fourth Plan, provided an overall outlay of Rs 2,086* crores. It was less than what would have been considered necessary for achieving the projected rate of growth of the economy. The Plan presented to Parliament gives priority to agricultural production and completion of spill-over schemes in other sectors. The outlays in the Central and State sectors were put at Rs 1,095 crores and Rs 931 crores respectively while the Union Territories were allocated provision of Rs 60 crores. Though the overall outlay is less than the last year of the Third Plan, a higher allocation for agriculture of Rs 336 crores was made. Other sectoral allocations were of the following order:

	Rs crores
Irrigation and Power	469
Industry and Mining	529
Transport and Communications	434
Social Services	298
Miscellaneous	20

The States, which were likely to receive Central assistance of Rs 505 crores, were asked by the Planning Commission to mobilise additional resources totalling Rs 120 crores for financing their 1966-67 plans besides their base aggregate for development expenditure. State Governments agreed in discussions with the Commission to raise upto Rs 102 crores. Adverse weather conditions and shortage

* This outlay was shown at Rs 2,221 crores in the relevant Annual Plan (Table 66 *infra*).

of inputs, mainly chemical fertilisers in regard to agriculture, and delays and difficulties in the implementation of projects in both public and private sectors in respect of industries and metals are reasons for the shortfalls.

THE 1967-68 PLAN

As against the Rs 2,754 crores outlay under the Annual Plan for 1967-68 originally visualised by the Planning Commission, the resources in sight are likely to be of the order of Rs 2,011* crores, implying a cut of 27 per cent in the outlay originally envisaged. Of Rs 2,011 crores, about Rs 1,711 crores would be raised by the Centre and Rs 300 crores by the States. Of course, what the Union Finance Minister (as well as the State Finance Ministers) has presented is only an interim budget. But his vehement declaration of war against deficit financing and his implied view that this is not the time for bold measures to raise resources through fresh imposts gives a strong impression that the interim budget is not quite so interim. In particular, it is clear that the increase in the annual plan outlay that may be accommodated in the final budget to be presented in the middle of May, 1967, could be no more than marginal. This is of course not to deny the intrinsic qualitative importance of budgetary proposals.

According to the data released by the Planning Commission in September, 1966, the proposed Rs 16,000 crores public sector outlay under the Fourth Plan was to be annually phased as under:

Table 64

PUBLIC SECTOR INVESTMENTS IN FOURTH PLAN UPTO 1970-71

(Rs crores)

Year	*Target*	*Actual or budget allocation*
1965-66		2,374
Fourth Plan		
1966-67	2,225	2,250
1967-68	2,754	2,011
1968-69	3,315	
1969-70	3,665	
1970-71	4,041	
Fourth Plan Total	16,000	

It may be noted that the nominal annual plan outlay for the public sector has been showing a decline even in absolute terms. It was Rs 2,374 crores in 1965-66. In 1966-67, the allocation was cut down to Rs 2,250 crores (revised estimates). And now, it appears that if it is decided to keep within the resources in sight, the outlay in 1967-68 would have to be pruned down to Rs 2,011 crores. The figures for the target presented in the above table were prepared

* This figure was put at Rs 2,246.08 crores in the relevant Annual Plan (Table 66 *infra*).

by the Planning Commission on the assumption that prices would be stable. However, prices have continued to rise all along and all the figures for actual or budget allocations are at current prices. If these figures are adjusted downwards to take account of the rise in prices during this period, the fall in the annual plan allocation in real terms would be seen to be much sharper.

It is likely that partly out of his keen desire to do whatever little he could to allocate a little more for the Plan and partly in response to pressures from the Yojana Bhavan which seems to be now pressing for a Rs 2,400 crore annual plan, the Finance Minister would do his level best to raise more resources for the Annual Plan for 1967-68. But, if one were to go by his recent forthright pronouncements, there is not much scope for raising additional resources. Even if the Finance Minister agrees to go in for a small dose of deficit financing (which would clearly go against his solemn pledge) and some sizeable dose of additional taxation, the additional resources that he may be able to provide for the Annual Plan for 1967-68 in his final budget could at best be of the order of Rs 100 crores.

Compared to the Rs 421 crores contributions which the States made to plan resources in 1966-67, their contributions this year would be lower at about Rs 300 crores, according to their interim budgets. In the present circumstances, it would be idle to expect that any major effort at resource mobilisation can come from the States even in their final budgets. In other words, the final allocation for the Annual Plan for 1967-68 may be of the order of Rs 2,100 crores and odd, i.e., about one-fourth less than even the nominal outlay originally envisaged by the planners. If, besides the increase in prices during the recent period is also taken into consideration, the Plan allocation for 1967-68 in real terms, would turn out to be two-thirds or even half of what was originally intended. What is true for 1967-68 may well turn out to be true for the Fourth Plan period taken as a whole (Table 65).

TABLE 65

FINANCING OF ANNUAL PLANS: PUBLIC SECTOR ONLY 1966-67 AND 1967-68

(Rs crores)

Item	*1966-67* *Budget*	*1966-67* *Revised*	*1967-68* *Budget*
1. Central Plan $(a+b)$	1,155	1,212	1,176
(a) Budgetary Resources	966	1,074	987
(b) Self-financing by Public Sector Undertakings	189	138	189
2. Central assistance for State Plans	505	617	535
3. Total Central Resources for the Plan (1+2)	1,660	1,829	1,711
4. State Resources for their own Plans	421	421	300*
5. Total Resources for State Plans (2+4)	926	1,038	835
Total Resources for the entire Plan (1+5) or (3+4)	2,081	2,250	2,011

* Approximate.

PLAN OUTLAYS AND RESOURCES: 1967-68

WHILE LIMITING the allocations for plan schemes in the coming year to what he described as 'the resources in sight', Mr Morarji Desai seems to feel that it may be necessary to provide for a larger outlay than the Rs 1,711 crores envisaged in the interim Budget. 'Plan outlays were restricted in the first year of the Fourth Plan,' he remarked, 'and there is obviously need to resume the momentum of development as soon as possible'. The assumption underlying this statement is that development cannot gather momentum without a stepping up of outlays. But if there is any lesson to be drawn from the experience of the past fifteen years, it is this: development is more a function of how plan projects are implemented than of the amounts spent on them. And this lesson is of significance in determining the scale of outlays for the coming year. Having regard to the stagnation in the economy—the rate of industrial growth during April-November, 1966, was as low as 2.6 per cent and the effect of two droughts on the national income, it would be wise not to think of a larger outlay than Rs 1,711 crores. The Government should realise that without an expansion in outlay a significant increase in national income can be achieved by more efficient utilisation of existing industrial capacity and a more productive use of available resources. If the large funds provided for agricultural schemes for next year are used efficiently, it should be possible to achieve notable increases in agricultural production, including both food and commercial crops. By expanding the output of foodgrains, raw jute, cotton and oilseeds during the coming year, we can reduce the dependence on imports. The saving in foreign exchange can be employed for importing other raw materials and components for want of which many of our industries have been operating well below capacity. If high priority is given to the completion of schemes taken up in the closing years of the Third Plan and during the current year and the maximum efforts are made to bring into full production all the existing plants and factories, the rate of industrial growth will pick up momentum without any large-scale new investments. Moreover, the steel plants, oil refineries, chemical plants and other recently established enterprises have considerable built-up capacity for expanded production which could be exploited by marginal and modest additional outlays. It is this potential that should be tapped, without going in for new schemes involving large outlays and inevitable delays in yielding results. If, as Mr Desai recognised, the most pressing problem today is to achieve an increase in production without recourse to inflationary finance, he must ask the Central and State Ministries to concentrate on proper utilisation of the resources to be made available for the schemes provided in the Budget and not to embark on the preparation of schemes involving additional outlays.

CUT IN THE FOURTH PLAN

A CUT OF nearly Rs 4,000 crores in the Fourth Plan outlay of Rs 23,750 crores is likely to be effected because of the difficult economic situation and the Government's decision not to resort to deficit financing. This became evident from the

first post-election analysis of the resources position discussed by the Planning Commission on 25 April 1967. The meeting held under the Chairmanship of Mr Asoka Mehta, is the first of a series of discussions to determine the precise availability of resources for the remaining four years of the Fourth Plan. Present indications are that almost the entire cut will be in the public sector outlay of Rs 16,000 crores. The investment of Rs 7,750 crores, originally proposed in the private sector, is likely to remain unaffected. With the total public sector outlay dropping to Rs 12,000 crores, it may become necessary to revise priorities in the industrial and social services sectors. No major cut in the agricultural sector is however expected. Out of the total anticipated cut of Rs 4,000 crores, Rs 3,000 crores represent the decline in internal resources and Rs 1,000 crores in external aid. As regards the internal resources, it has now become clear that various assumptions made at the time of preparing the Draft Plan have not materialised. The major assumptions related to holding of the price line, avoiding a general increase in the wage levels, discontinuance of deficit financing, reduction of non-plan expenditure and stipulated increase in agricultural and industrial production.

All these assumptions have been belied in the first year of the Fourth Plan. The plan outline was prepared on the basis of 1964-65 prices. But the year 1966-67 itself has witnessed a general increase of 15 to 20 per cent in the price level. There has been an all-round increase in the dearness allowance of Government employees. Deficit financing in 1966-67 rose to Rs 350 crores, against the original estimate of Rs 32 crores. On the agricultural front, not only has the production sharply declined due to drought, but the Government had to divert a considerable amount of resources to relief works in the scarcity areas. Both as a result of the reduced output of agricultural raw materials and the uncertainties of foreign aid, industrial production has been virtually stagnant for the past one year. As regards foreign aid, although the Aid India Consortium committed $900 million as non-project aid for the first year of the Fourth Plan, this amount was far below the requirements originally estimated by the Planning Commission. The recent Paris meeting of the Consortium also indicated the same amount of non-project aid for the current year. Because of a fall in internal agricultural and industrial production and the post-devaluation setback, India's exports have actually declined by about $130 million thereby affecting the foreign exchange resources.

1966-67 AND 1967-68 ANNUAL PLANS: LATEST PHASE

THE 1967-68 annual plan proposes an outlay of Rs 2,246 crores in the public sector against Rs 2,221 crores in 1966-67 and the total Fourth Plan outlay of Rs 16,000 crores. The resources availability is, however, estimated at Rs 2,192 crores (including a deficit financing of Rs 14 crores on behalf of the State Governments) leaving a gap of Rs 54 crores between the outlay and available resources. Measures for covering this gap are under consideration in consultation with the State Governments. In case it is not found possible to cover a part of this gap, the plans of the State Governments concerned may have to be suitably adjusted. Of the total outlay of Rs 1,010 crores for the State Plans, Rs 590 crores represent Central

assistance, the remaining being the States' own contribution. Central aid is lower this year by Rs 27 crores. Comparing the current year's proposed outlay with that of last year, the picture as it finally emerges is that Plan outlay in 1967-68 is more or less of the same order as in 1966-67. If, however, allowance is made for the rise in the general price level that has already occurred, the outlay for the current year would actually be lower in real terms.

In accordance with the normal phasing the step-up in plan outlay for 1967-68 should have been more than the 1966-67 level, but due to the constraint on resources, it has not been possible to provide for that level of outlay. It was apparent from the very outset that in view of the prevailing state of the economy and consequent financial constraint, any significant step-up in the Plan outlay in 1967-68 was unlikely. The task before the Planning Commission was that of drawing up of a viable annual plan within the overall framework of the draft Fourth Plan, but consistent with immediate and urgent needs of the economy and compatible with the resources in sight.

The break-up of the annual plan as between the Centre, States and Union Territories as compared with the corresponding break-up for the last year and the total plan is as follows (Table 66):

TABLE 66

FOURTH PLAN OUTLAY: 1966-67 AND 1967-68:
Centre and States: Public Sector

(Rs crores)

Item	*Total Fourth Plan Outlay*	*1966-67*	*1967-68*
Centre	8,536	1,148	1,172
States	7,073	1,009	1,010
Union Territories	391	64	64
Total	16,000	2,221	2,246

The following are the current year's plan outlays for the various States (Table 67).

TABLE 67

OUTLAY BY STATES—1967-68: PUBLIC SECTOR

(Rs crores)

State	*1967-68*	*State*	*1967-68*
Andhra Pradesh	68.98	Mysore	60.25
Assam	30.00	Orissa	46.00
Bihar	80.55	Punjab	42.00
Gujarat	70.00	Rajasthan	43.00
Haryana	24.15	Uttar Pradesh	155.00
Kerala	42.63	West Bengal	60.87
Madhya Pradesh	60.37	Jammu and Kashmir	20.25
Madras	77.28	Nagaland	6.25
Maharashtra	122.38		

Of the estimated available resources of Rs 2,192 crores for the current year, Central and State Governments are expected to provide about Rs 1,177 crores from their domestic budgetary resources.

Budgetary resources corresponding to external credits including those under PL 480 are estimated at another Rs 1,001 crores. The total normal budgetary resources are thus estimated to amount Rs 2,178 crores in view of the need to stabilise the economy through a policy of budgetary restraint. Deficit financing is expected to make only a marginal contribution towards the financing of the Plan outlay. The actual deficit financing in 1966-67 by the Centre and the States taken together is estimated at about Rs 350 crores as against the estimate of Rs 14 crores taken at the time of the formation of the annual plan for that year. However, it was substantially lower than the Rs 400 crores in the previous year in spite of the various unfavourable developments in the economy. Nevertheless the resort to deficit financing by the Centre and States in 1966-67 imposed a further severe strain on the economy. Strenuous efforts to restrain the inflationary impact of budgetary operations are therefore necessary both at the Centre and in the States.

In the 1967-68 plan, in conformity with the guidelines given by the Planning Commission, the highest priority has been given to agricultural production and allied programmes. Even in other sectors of the economy, activities catering to the needs of agriculture such as irrigation-oriented rural electrification, production of fertilisers, pesticides and agricultural implements, etc., have been given priority. In the case of essential overheads like power and transport and communications, the provision is adequate to ensure that these facilities would continue to expand commensurate with the growing requirements of the economy. In industry, an effort has been made to provide at least the minimum outlay necessary for the expansion and consolidation of the industrial base. In the distribution of investment projects oriented to export have been accorded due priority. Among the social services, family planning has continued to receive great emphasis. A larger provision has been made to enable this programme to be pushed ahead even more vigorously.

The bulk of the outlay in each sector, and in particular in the case of irrigation, power, industry and transport, is in respect of continuing schemes. The new projects included are principally those the details of which had been fully worked out or on which preliminary work had been completed or was nearing completion and arrangements for foreign exchange had been finalised or were in sight so that there would be no delay in their implementation and infructuous tying of funds would be avoided. Taking the first two years of the Fourth Plan together with the Plan document, despite the acute financial stringency, the needs of the directly productive sectors had been met to an extent that would more or less keep up the tempo of development. The allocation for agriculture, community development and co-operation, major and medium irrigation, power, transport and communications and industry, organised as well as small scale, works out to about 30 per cent of the year total envisaged in the draft outline of the Fourth Plan.

It is however in the sphere of social services outside of such high priority programmes as family planning, that financial stringency has resulted in inadequate provision. The provision for social services during the first two years has been just about 20 per cent of the five year total envisaged in the Draft Outline. Of the resources available of Rs 2,192 crores, Rs 1,826 crores come from the Centre and the remaining Rs 366 crores from the States. The following is the break-up of the resources available (Table 68):

TABLE 68

PLAN RESOURCES—1967-68: PUBLIC SECTOR

(Rs crores)

Item	*Centre*	*States*	*Total*
Domestic budgetary resources	826	351	1177
Balance from the current revenues	167	45	212
Contribution of railways	168	71	239
Additional taxation	115	40	155
Other measures	106	19	125
Loans from public (net)	95	109	204
Small savings	35	101	136
Gold bonds	-3	...	...
Annuity deposits	22	...	...
Unfunded debt	56	30	86
Miscellaneous capital receipts (net)	94	-144	-50
Deficit financing	-1	15	-14

Of the total Rs 1,826 crores available from the Centre, a sum of Rs 590 crores will form the Central assistance to the States who are expected to raise otherwise a total of Rs 366 crores.

The provision for agricultural development, community development, co-operation and irrigation for 1967-68 is Rs 523.27 crores, including Rs 10 crores for Agriculture Re-Finance Corporation and Rs 15 crores for land mortgage banks. In addition, provision has been made for production and supply of agricultural inputs, such as electricity for tubewells and lift irrigation, production of fertilisers, pesticides, agricultual implements as well as for agro-industries. Among the selected physical targets for the current financial year in agricultural sector are:

	million tons
Foodgrains	100
Sugarcane	12
Cotton	7 million bales of 180 kg.
Oil seeds	9 million tons
Jute	7.50 million bales of 180 kg.

The area under improved seed for foodgrains was 134.53 million acres of which 16.23 million acres were covered by high yielding varieties. Irrigation potential at the end of the current financial year would be 21 million acres and utilisation 17.4 million acres. In addition, minor works will provide irrigation for another 3.5 million acres. The consumption of fertiliser will reach 2.15 million tons and plant protection will have been extended to 126 million acres.

Like the previous year, this year's plan also gives high priority to agricultural development, family planning and the continuing schemes in the other sectors of development. The sectorwise break-down of the total plan outlay along with the anticipated expenditure last year is as follows:

	(Rs crores)
Agricultural programmes	296.65 (268.89)
Community development and co-operation	79.85 (77.66)
Irrigation and food control	146.77 (143.76)
Power	384.78 (399.27)
Organised industry	520.19 (542.84)
Village and small industries	43.55 (45.53)
Transport and communication	418.76 (431.87)
Education	111.66 (93.23)
Scientific research	19.06 (15.86)
Health and family planning	75.84 (55.94)
Water supply	36.96 (34.20)
Housing and urban development	25.87 (24.26)
Welfare of backward classes	17.75 (22.97)
Social welfare	4.43 (3.94)
Craftsman training and labour welfare	15.30 (14.53)
Public co-operation	0.59 (0.26)
Rehabilitation	16.08 (14.34)
Rural works	6.50 (7.75)
Other programmes	25.49 (18.71)

1967-68 RESOURCES OVERSTATED

The planning Commission has come to the conclusion that the schemes for additional resource mobilisation, laid down in the annual plan for the current year, cannot be implemented. The annual plan has mentioned resources-taking measures which could be thought of if there was a bumper *kharif* crop and a general improvement in the country's economy. The bumper harvest has in fact almost materialised, but the general economic situation has not yet registered an upturn in agriculture. It seems certain that the prices will not fall appreciably during 1967 and industrial production has not registered an upturn also. In the face of these economic realities, the Planning Commission feels that additional resource mobilisation is neither feasible nor appropriate during the current fiscal year. In many ways this decision of the Planning Commission was thrust upon it by the Chief Ministers who have shown little or no enthusiasm for resource mobilisation.

The major measures suggested in the annual plan were the abolition of the food subsidy, the abolition of remaining fertiliser subsidy, increases in water and electricity tariffs, higher taxation on large scale holdings and a drive by the Central and State Governments for the collection of tax arrears. The Chief Ministers have ignored almost all these proposed measures. The States are bent on throwing away even their existing resources. The upshot of this is that development will suffer because of want of funds. In the Annual Plan the States were expected to have a total deficit of about Rs 68 crores. This gap of resources was supposed to be covered by additional resource mobilisation. This was an optimistic hope at best and it has been belied. The gap is going to be much larger than Rs 68 crores and is likely to be Rs 200 crores. This is because of hacking of taxation on land, and increased payment of dearness allowance, a major shortfall in the expected resources. Excess of expenditure over the optimistic budgetary estimates has followed. The same factors (apart from land taxation) have doomed the Centre to a sizeable deficit, in spite of Mr Morarji Desai's repeated assertions that it would not resort to deficit financing. As proof of his intentions, the Finance Minister presented a balanced budget to Parliament, but the assumptions behind the budget have turned out to be so unrealistic that a major Central deficit is now conceded and certain. It will not be a matter of great surprise if the Central and State deficits put together touch a record level in 1967-68.

THE TRANSITIONAL PHASE

Whether to finalise the Draft Fourth Plan, which has not made a satisfactory start and go ahead with its implementation to complete the cycle in 1970-71, or to formulate a new five-year Plan beginning with 1968-69 or 1969-70, is one of the issues facing the planning authorities. The Planning Commission, which started functioning from September 1, 1967 with a new set-up, is expected to consider the issue within a few weeks. According to one school of thought in the Planning Commission, it would be wise to work annual Plans during the next 2 financial years ending March 1970, as had been done during the first two years of the Fourth Plan period, and in the meantime prepare a new five-year Plan to begin with the financial year 1970-71, the fifth year of the current Plan period. Those who favour this approach argue that the economy has been distorted during the last few years by two aggressions on the country's security necessitating huge outlays on defence (non-development) expenditure and by successive droughts which depressed agricultural production to the lowest ever.

The economy is bound to return to its normal state if the monsoons, which are expected to be good throughout the current agricultural season, repeat their performance next season too. Such circumstances would be propitious for beginning a new Plan. Besides, they argue, a start from 1970-71 would also give certain political and administrative advantages. The year falls midway between the general election years 1967 and 1972. The last three Plans had come up before Parliament for approval in the election year. This had prevented Parliament from giving the Plan its due consideration. It had also stood in the way of the efficient

execution, the Centre and the States being busy initially with formation of Governments and then settling down. The new set-up of the Planning Commission, coming into existence at a very critical stage in the country's economic development, with inflation and recession affecting it simultaneously, is bound to be engaged for the first few months in finding solutions to this problem and to get the economy back on its rails. It is expected to have just time to formulate the third annual Plan beginning April next year.

Since the successful execution of the Fourth Plan will depend very much on a good monsoon next season (1968-69), even though its finalisation may be rushed through in the next few months, this school believes that the whole thing may be stayed till the country gets over the next season. It also believes that the distortion in the economy, manifested in the abnormally high prices of practically everything, is due not merely to the bad agricultural seasons, but caused equally by the large unestimated amount of hidden money. Steps taken during the last three years to ferret it out on a voluntary basis have yielded very poor results. In the circumstances, very serious and perhaps unorthodox methods, to be seen only in one or two countries in the world, would have to be adopted to siphon it off for development purposes.

ONLY ANNUAL PLAN AGAIN: SIX MONTHS TO STABILITY

The Deputy Chairman of the reconstituted Planning Commission, Prof. D. R. Gadgil, said that the Commission had decided to have an annual plan for 1968-69 also. This means a delay of at least another year in the finalisation of the Fourth Plan. Originally, the Commission had promised to prepare the final draft of the Plan in October-November this year. Mr Gadgil said that 'the immediate objective is to reach economic stability within the next six months'. The N.P.C. decided that the main proposals for the annual Plan for 1968-69 should be finalised before the presentation of the general budget in February 1968. In the next one or two months, work on the annual Plan, 1968-69, would be given priority. It was felt that the immediate objective was to reach economic stability within the next 6 months. With regard to the Fourth Plan, it was decided that work on it should be deferred to a later date.

The Commission decided that initial effort should be concentrated on analysing critically the current economic situation and identifying areas for concentrated effort. It was also agreed that the executive functions in regard to rural industries projects and public co-operation, at present being dealt with in the Commission, should be transferred to appropriate Ministries. Prof. Gadgil said some of the important short-term policies, such as holding of the price line, procurement and distribution of foods, import restrictions and export incentives, which were under the Government's consideration would also require study by the Commission. If the monsoon was good this year, the price situation might ease temporarily, but it was essential to adopt economic measures before March next, so that the usual price rise after April did not recur.

With regard to dovetailing short-term and long-term policies, Prof. Gadgil said this was highly necessary and would involve frequent interchange of views between the Government and the Commission. Machinery for such consultation would have to be evolved. The current task of the Commission was to prepare an analysis of the economic situation in the country in consultation with the imporant economic Ministries. He was of the view that there should be a better flow of economic intelligence and that, too, on a selective basis. The Commission should preferably concentrate on specific strategic areas, leaving details to be sorted out by the Union Ministries and the States. Referring to the preparation of the Fourth Plan, he pointed out that several alternatives had been suggested, and it was essential to examine them fully. Prof. Gadgil also said that the Commission's advisory bodies and panels, which had completed their work or had not met for long periods, should be dissolved. If need arose, a few committees or panels could be reconstituted with specific terms of reference. Mr Morarji Desai said the agricultural situation would be clearer by the middle of October 1967. It would also be possible to have a precise picture of availability of foreign exchange by that time. The N.P.C. is also understood to have considered to disband all committees which had currently no work.

People's faith in planning could be restored only by showing more tangible results. All should join together to end the spectacle of 'growing shortages, rising prices and growing disparities'. 'Only when their basic necessities are satisfied, will the people really believe in our vision of the future'. Though the Administrative Reforms Commission had recommended several changes in the working of the Planning Commission, there was no need to change the original terms of reference given to the Commission in 1951. It had been decided that it should concentrate on the formulation of Plans and the evaluation of Plan performance. It should not be burdened with executive functions. An important aspect of the Commission's work would be to present to the Cabinet the implications of alternative choices and policies, emphasising in particular the co-ordination of short term economic policies, and bringing out the implications of current policy, of action taken or deferred, on perspective development. 'The task before planners is, therefore, to solve the problems of the people'.

THE FOURTH PLAN TO COMMENCE FROM 1969-70

THE PLANNING COMMISSION decided on November 10, 1967, that the Fourth Plan should begin from 1969-70 onwards. Since the end of the Third Plan, the country has had two annual plans, namely, for 1966-67 and 1967-68, and this arrangement would continue for the next year also. Disclosing this at the end of the full meeting of the Commission under the chairmanship of the Prime Minister, Prof. D. R. Gadgil, Deputy Chairman, said that work on the five-year Plan would commence from January 1968 itself. The draft of the new five-year Plan (1969-70 to 1974-75) should be ready by September next and the final document by the end of 1968. The first meeting of the reconstituted National Development Council was convened on December 1 and 2 to ratify the decision regarding the

rescheduling of the Fourth Plan and consider programmes and policies for the next year's plan.

The size of the next year's Plan could be the same as postulated for the current year without any deficit financing, provided concerted efforts are made to hold the price line and mobilise additional resources. Among the important suggestions made by the Commission to augment plan resources is the creation of an all-India integrated system of taxation of incomes through merger of the agricultural income-tax with the general income-tax and raising electricity and irrigation rates. If the States gave the Centre the power to enforce the proposed integrated system of taxation, the Centre, in turn, would be able to reimburse part of the money to the States.

REVISION OF PLAN METHODS AND PROCESSES

THE ADMINISTRATIVE Reforms Commission's Study Team on *machinery of planning* in its final report, has recommended closer association of the private sector in the Plan process. It has also suggested greater freedom for the States and the Central Ministries in working out detailed plans and appointment of a parliamentary committee on planning on the lines of the Committee on Public Undertakings. While conceding that the formulation of the Fourth Plan has been beset by a number of unavoidable difficulties, the Study Team has found that there are a number of features of the Plan formulation process itself that are defective.

The team is of the view that the function of posing alternatives in sufficient depth has not yet been adequately performed by the planners. It wants major alternatives, based on different assumptions, to be clearly posed and discussed so that there is a genuine Plan choice. A second major change should be that Plan formulation must become a much more continuous process than it has been in the past. As a part of the reorganisation of the planning process, a 15 year Plan should be prepared along with every five year plan. It is also essential that a new interim five year plan is prepared at least by the time half of the current five year period is over, so that a Plan for the next five years is ready by that time. The third general change necessary in the planning process is to work out in detail the major policy implications of the proposed course of development. No improvement in the planning process is possible if the Planning Commission and the Government do not come to firm conclusions about such basic issues. It feels that making a clear distinction between continuing projects for which adequate resources must be made available to ensure completion, and new projects which should be taken up only when they are fully worked out and resources for them assured, is an important step in the improvement of the annual plan process.

The Team has recommended the setting up of a parliamentary committee on planning on the lines of the committee on public undertakings. Its function should be to examine the annual and other appraisal reports as well as evaluation reports which are made available to the Parliament from time to time.

CHAPTER IX

VIEWS ON INDIAN PLANNING

THE WALL STREET JOURNAL ON INDIAN PLANNING

The Wall Street Journal, America's largest standardized newspaper, said editorially recently that India's food problems are going to require some hard political decisions. The paper, in its third editorial, said: 'Any compassionate person will hardly quarrel with Washington's resumption of grain shipments to India facing hunger and even starvation'. Yet the problems of India and other underdeveloped nations are going to require some hard political decisions, in the richer countries as well as the poor. The national leaders have been far too intent on new steel mills and other political prestige symbols to pay enough attention to fertilisers, water supply and modern methods of farming. The truth is that the poorer countries customarily submerge their economies in all sorts of control and burden them with poor state planning. The new approach to bug killing involves luring insects to poisonous traps by means of invisible, ultra-violet radiation dispelled from light bulbs on poles in farm areas.

Dr Walter M. Carleton of the Department of Agriculture said: the 'light-trap' technique is among several novel 'physical control measures' for fighting insects that are undergoing intensive research trials as possible partial substitutes for the much-criticised chemical-control methods and for biological and radio-logical techniques. Another among the newer ones is the use of ultrasonic, silent sound waves to lure insects to disaster. At the same symposium, Dr George W. Irving, Chief of the Government's Agricultural Research Service, said that even as research goes on to find ever safer and more effective insect-fighting methods of all kinds, there must be continued use of available weapons including chemical pesticides. It is estimated that pests of all kinds annually reduce potential agricultural production by 30 per cent in the U.S. alone. At the same time, it is estimated that domestic and foreign demand for America's farm products by 1980 will be 40 per cent greater than current production.

MR CHESTER BOWLES ON INDIA'S PROGRESS

U.S. AMBASSADOR Chester Bowles urged the Indian public to consider the gains that have been made in the 19 years since Independence for a 'balanced analysis' of India's successes and failures. 'Everyone who knows India', said Ambassador Bowles, 'recognises the immensity of India's problems. If these problems are to be met and mastered, it is essential that the people of India, and particularly the business and government leaders, recognise its many accomplishments as basis for future progress'. Mr Bowles noted that malaria has been reduced from 100 million cases in 1952 to less than 50,000 in 1966, India's elementary school

system is now providing an education for more than three times the number of pupils it provided for fifteen years ago. Each year India is turning out more than 5,000 doctors and 10,000 engineers. India's steel production has increased six times. Electric power capacity is now five times what it was in 1953 and is expected to double again in the next five years. Much has been said and written about India's massive food shortages, but barely one hears of the 'equally massive efforts that are being made to increase food production'. The Ambassador went on to ask: 'How many Indians know of the five million acres that are being intensively cultivated this year with new seeds, fertilisers and scientific irrigation, of the rapid expansion of the fertiliser industry, or of the wide-scale introduction of pesticides?' A concerted effort should be made in agricultural production, education, population control and private initiative, if India is to make a more 'rapid democratic development'. The obstacles are admittedly great, said the U.S. Ambassador 'but anyone who knows India simply cannot ignore the talent, the capacity for work and the strong democratic political faith of its people. The new generation of young Indians can enable this enormously promising land to achieve a break-through to expanded production, to higher living standards, and to increased justice for all the people'.

DR JOHN P. LEWIS ON CHARACTERISTICS OF INDIAN PLANNING

Dr John P. Lewis, Minister-Director, U.S. Agency for International Development in India, observed that, in spite of certain steps taken by the Government following the Devaluation, the export results so far had been disappointing. Stressing the need for plan-oriented enterprise and management, he said no aspect of India's whole development strategy was more critical or problematical than export expansion. Certainly market incentives needed to be structured in favour of exports. The Government, in its decisions last summer for devaluation, resorted to import liberalisation and levied selective export taxes and simplified export subsidies. But the implications of these steps had taken a while to sort themselves out. The export results so far had been disappointing, and meanwhile the Government was preoccupied with an election. Under these circumstances, it would not be proper for entrepreneurs to forget about exports as such, or at least the nation's foreign exchange problem, and maximise rupee earnings in the domestic market. Such entrepreneurship simply is not good enough for India at this juncture. It is not good enough business statesmanship. The foreign exchange problem is not the Government's, it is the country's. In a period when Government action is inhibited by constitutional processes, it is the responsibility of all relevant enterprise managers to press forward the export drive in direct support of the national goals. Dr Lewis paid a tribute to the Union Planning Commission for recently releasing a document entitled 'Materials and Financial balances' which spells out in detail the fabric of economic activity that is implicit in the Fourth Plan. Describing it as quite remarkable and significant, he said that it may well be the most explicit, detailed exposition of a national planning tableau any Government

anywhere has yet issued. Referring to market mechanism in economic development, he could not suggest that market domain and the planning domain were mutually exclusive. However, successful implementation of the nation's accelerated development effort required a considerable measure of what was called in the United States business statesmanship. In short the successful management of plans will require the most effective development and exploitation of market mechanism. But it also will demand readiness on the part of enterprise managers to consider something like the materials and financial balances document as an action agenda for their investment decision. Indian planners must be given very high marks for the internal consistency of the arrays of inter-industry targets they had projected for any given time. But these were still primarily snapshots of points in time five years apart. There was need now for more time testing of the design, for the development of early warning systems for spotting incipient bottlenecks before they occurred and while there was still time to forestall them. Fuller participation by key enterprise managers in the planning process could aid this effort. The effort, in turn, will fortify managers' appreciation of the continuing pertinence of the planning targets. The fact is that both the market and planning mechanism are useful and necessary instruments for the pursuit of India's urgent economic objectives. Both need strengthening and refining, and the two are perfectly compatible and blendable instruments.

SOCIALISM IN PRECEPT

India's economic development is veering towards capitalism instead of taking the road to Socialism. The Congress Party's avowed socialistic objective does not exist in any positive or concrete form, nor is any action being taken to inculcate such an attitude. The capitalist psychology and attitudes to development are not only growing in significant measures, but are also not being discouraged by Governmental policies and programmes. Economic growth has been much less than superficial and statistical assessments show in correct pictures, workers' participation in industry is absent in the private and public sectors, and co-operative production does not figure in agricultural programmes. The progressive aim of reducing inequalities in incomes and wealth has been foiled by the tax system and the failure of the Government to overcome tax evasion. In fact, incentives are being given to those persons to persuade them to make their ill-gotten resources available for development. Government's attention has been concentrated far too much on what may broadly be called the material and statistical aspects of socialist development rather than on the human and living factors that give socialist society as well as its growth. The public sector's undertakings are just employers as in the case of the private sector. The worker feels neither a special obligation nor special sense of pride nor a unique feeling of identification with his work as should be expected in a socialistic society of which public sector enterprises are presumably the most important instruments. At the same time, the public sector enterprises are subject to all the bureaucratic delays and difficulties inherent in a huge Governmental machinery with the result that the private

sector enterprises are able from time to time, and not entirely without reasons, to claim that their managerial and entrepreneurial efficiency is greater. Incentives for the man at the top quite often mean disincentives for the masses at the bottom. The whole strategy has to be altered in order to raise the mass-base. The basic element for planning for socialist society is missing in our strategy. This element is mass-foundation, mass-belief and mass-participation. It cannot be brought about by creating new institutions. It has to be achieved through education, orientation and psychological transformation to be brought about by non-Governmental agencies.

NCAER ON THIRD PLAN PERFORMANCE

An appraisal of the performance of the Indian economy in the Third Plan 1961-66 by the National Council of Applied Economic Research (NCAER) has revealed shortfalls in physical targets, foreign exchange shortages and faulty implementation of Plan schemes. The Council's appraisal is a critical review of the performance of the economy, mostly during the Third Plan period and claims to be a balance-sheet of achievements and failures of the economy on the eve of the launching of the Fourth Plan. According to the review, the reasons for shortfalls in physical achievements are to be sought in 'administrative deficiencies, inefficient utilisation of created industrial capacities, inadequate planning in respect of several industrial projects, higher costs and lack of trained personnel'. Agricultural production fell about by half of the targeted 30 per cent while industrial output rose by only 36 per cent as against the expected 75 per cent.

The price level of all commodities registered a 32 per cent increase in the five-year period which the Council described as 'quite alarming'. While highlighting failures of the Third Plan, the review, however, points out that an annual increase of three per cent in agricultural production realised over the past 15 years, is not to be slighted, although the decline in this growth rate witnessed in recent years could have been avoided. 'In the industrial field, a whole host of new industries, with a complete range of new products, has come into existence. Employment opportunities have widened and a phenomenal increase in the number of skilled and technical personnel has taken place. Developments in the field of transport and communications have been encouraging'. The review emphasises that inhibiting factors in the Third Plan performance should not be allowed to 'bedevil' the prospects of the Fourth Plan. The benefits derived during the Third Plan may not have been commensurate with the targets set, but this should not decry planning as such. The NCAER study of the Third Plan was completed before the Fourth Plan outline was published. There are slight variations in the figures of rate of growth, *per capita* income and price rise between the two documents. According to the Council's estimates, against the rate of growth of 3.4 per cent and 4 per cent in the First and Second Plan periods respectively the rate of growth (compound) during the Third Plan is estimated around 3.8 per cent per annum while the target for the Third Plan was 5 per cent. The Plan Outline, however, estimated the rate of growth over the five-year period at less than half

of the 5 per cent aimed at. Making allowance for the population increase during the Plan years at the rate of 2.4 per cent per annum, the review says, the rate of growth of *per capita* income estimated at 1.5 per cent would be below the actual during the first two Plan periods—1.6 and 1.9 per cent respectively.

Net additional tax revenue collected by the Centre is estimated at Rs 2,260 crores over the five years, which is slightly more than double the targeted figure. The review calls for rethinking on the advisability of imposing heavier burdens on the middle and upper income groups from whom savings have to be mopped up. It also calls for abolition of surtax on profits which acts as a ' drag on efficiency.' It, however, does not support the lowering of the basic corporate tax in view of the need for raising resources for development purposes. Vigorous efforts must be made to tap rural incomes through agricultural tax and betterment levies in all States. Referring to deficit financing, the review observes that according to present indications, the quantum of deficit financing resorted to during the Plan period would amount to Rs 780 crores as against the target of Rs 550 crores visualised in the Plan. The price index rose by 78 per cent over the Second and Third Plan periods bringing in its wake economic and social discontent as the price increases manifest in essential articles weighed heavily on the poorer sections of the people with an attendant clamour for higher wages. While generally supporting strategy of the Fourth Plan, the review urges determined implementation of measures to augment agricultural production. It also calls for adequate flow of maintenance imports to feed the growing industries. The export policy should be oriented to the task of meeting external debt services. On foreign aid, despite enlarged exports, dependence on foreign aid will perhaps be inevitable in the immediate future. Domestic savings could no doubt be augmented, but it cannot be a complete substitute for external finance. It concludes that from the development point of view, external assistance would be of considerable help, but measures should be adopted to check all non-essential aid.

FOURTH PLAN CONNOTATIONS

As one looks deeper and deeper into the Fourth Plan Draft, one is overwhelmed by the utter lack of realism that pervades the entire document. To say this is not to imply that the experts of the Planning Commission have, technically speaking, done a bad job; nor does it imply that there is something fundamentally wrong with the material balances underlying the targets. In so far as the operations involved in Plan projections are purely mathematical exercises, a plan can be invested with internal consistencies at any level of investment and outlay. The crucial question on which the entire feasibility of the Plan depends is the ability of the Government to divert the necessary resources in real terms without resorting to inflationary techniques. To put it more specifically, what is necessary is a correct assessment of the ability, efficiency and sense of dedication of those in charge of the political and administrative machinery of the country. It is in this assessment that the Planning Commission has gone quite wrong. They expect too much from the political and administrative leadership. When we say that the

Plan is too big, it does not also imply that we favour a small plan. On the contrary, to any intelligent Indian, it is very clear that a high rate of economic growth at the rate of, say, 7 to 8 per cent per annum should be a *sine quạ non* for four vital national objectives:

1. Ensuring a minimum decent standard of living to every Indian;
2. Attainment of self-reliance and full realisation of our economic and political sovereignty;
3. Ensuring the destiny of India as at least a second-rate power in the world; and
4. Prevention of general internal chaos and disorder, and of dismemberment of the Indian Union as a State and as a Nation.

We are fully aware of the grave consequences which could follow from the continuance of the sluggish growth rate of the Indian economy. But irrespective of the type of solution one might suggest, it cannot be denied that the basic assumptions as regards the ability and the quality of the political and administrative leadership which crucially underlie the projections of the Fourth Plan, are largely unrealistic.

J. R. D. TATA ON THE FOURTH PLAN

We need a Plan that relies more on incentives than on controls. We need a more thorough evaluating machinery built into the Planning Commission, which will go to make annual Plan assessment more purposeful and the Plans more realistic. He pleaded for a respite from inflation and taxation. There should be respite from heavy investments with low employment potential and long gestation period so that people could see the fruits of planning come to them in the form of increased employment and increased consumption. Shri Tata approvingly referred to the trend in the communist world, particularly Yugoslavia and Czechoslovakia, to concentrate administrative efforts on implementation of selected key targets and leave the remaining areas of plan implementation to the forces of supply and demand. There was a growing tendency in the communist countries towards 'decentralised decision making'. This was particularly relevant to India, especially to the public sector. Shri Tata compared the performance of five top public sector undertakings, the National Coal Development Corporation, the Fertiliser Corporation of India, the Heavy Electricals, Bhopal, the Neyveli Lignite Project and the Heavy Engineering Corporation (Ranchi), with that of his own firm of TELCO and pointed out that the returns from the former were only a tenth of those from the latter. Referring to the private sector, Shri Tata pointed out that its share in the total investment in industry had been reduced from 81 per cent in the First Plan to 43 per cent in the Third Plan and likely to be only 37 per cent in the Fourth. Despite this deliberate down grading, in absolute terms, the investment in the private sector had increased from Rs 230 crores in the First Plan to Rs 1,300 crores in the Third. For the Fourth Plan, an optimistic target of Rs 2,350 crores was contemplated.

Above all, the Plan should make the people feel that they were not at every turn being regimented and controlled but were being provided for. He agreed that economic growth could not be achieved without 'toil, tears and taxes', but he did not agree that they should all be there all the time. An over-sized Plan inevitably generated inflation and created huge managerial problems. A good deal, if not most, of the present difficulties rose from wrong priorities and inaccessible targets. Denying the charge of lack of initiative in Indian entrepreneurs, he drew attention to the 'incredibly difficult, time-consuming and frustrating conditions' of control under which they had to operate. With punitive taxation and various controls, the Government had created a situation where the capital market had ceased to exist and attempts to start or expand an industry became a nightmarish process. Controls and procedural delays could only hamper a project and increase costs. He welcomed the Fourth Plan proposal for detailed annual review, but felt such an evaluation should be made, not by the Planning Commission, but by a higher-powered standing committee on which the private sector too would be represented. Wherever possible, efforts should be concentrated on projects that brought quick returns. The Government should forget its largely imaginary fears about concentration of economic power. He pleaded for a revival of the capital market. For this, a new approach to profits and taxation was called for. It made no sense to expect the private sector to make large investments and at the same time deny them a return sufficient to motivate new investments. He suggested a revision of the tax structure in both the corporate and the individual sectors.

GOVERNMENT POLICIES AND ECONOMIC ILLS

Shri N. A. Palkhiwala said that more than any other single factor, the one responsible for the present sorrowful economic plight was the wrong policies pursued by the Government. This would spell disaster if the Fourth Plan was implemented as envisaged by the planners.

He analysed the six-faceted economic policy of the Government comprising the monetary, fiscal and export policies, climate for free enterprise, balance between agriculture and industry and the response to foreign capital in India. Out of these facets monetary policy was the greatest culprit and India was a model country in the whole world of what monetary policy should not be. He gave some 'unpleasant truths' about each of these facets, quoting facts and figures, and offered remedial measures.

The most important thing to be done was that the laws of the land should not be for 'beasts and angels but for human beings taking into account the human nature as it was'. The problem of paramount importance in India was how to hold the price line. If the rupee was to be half its present value in the years to follow, the monetary targets would be meaningless. He wanted concentration on increased production of goods which the people badly wanted and were in short supply. It was easier to increase the natural product than change the national character.

There was a need to increase the return of profit in the public sector. The country could ill-afford locking up huge investments with only one per cent return.

Consideration of hard realities and not soft ideologies should help. The country should not resort to deficit financing at the level used for the last five years. Again, heavy taxation hampered economic progress. The result was that there were no savings and capital formation. A determined and imaginative drive was needed for export promotion to capture the world market and to retrieve the balance of payments. Coming to monetary policy, during ten years, this rate was 80 per cent. The wholesale price index was 207. During the last year alone, the wholesale price registered a 15 per cent increase while the food price registered a 20 per cent increase, the drop in *per capita* income was 7.1 per cent. The cardinal condition of progress was the stability of currency. Deficit financing in India increased from Rs 354 crores in the First Plan to Rs 930 crores in the Second and Rs 1,150 crores in the Third Plan. During the Fourth Plan it was envisaged at Rs 2,050 crores. Similarly, overdrafts by the States, despite clear and repeated warnings, had reached Rs 250 crores during the first nine months of 1966-67. Devaluation, Shri Palkhiwala said, was necessary to put a fact on a legal footing. Economic laws were no respectors of individuals and States. An ECAFE report said that India would require 134 years to reach the present economic level of Japan at the present rate of progress. India's progress was lowest, barring the lone exception of Indonesia. Quoting an authority, Shri Palkhiwala said that the diagnosis which led to devaluation in India was correct, but the surgeon was not awake when the operation was on. This has resulted in frustration and steep internal rise in prices. Shri Palkhiwala said that India was the highest taxed nation in the world. The rate of taxation was 82 per cent on an individual's earned income and 89 per cent on unearned income. In Japan and Germany, the rates were 58 and 60 per cent respectively. Similarly, the corporate tax in India varied from 66 per cent to 74 per cent. The highest known rate in any civilised country is 55 per cent. Even Chile charged 66 per cent on mines run by foreigners. An Indian businessman did not want to return to India for fear of heavy taxation. This drove even an honest man in India to dishonesty. Even in an honest country like Germany, where the taxation rose to 80 per cent after the war, evasion of taxes increased enormously. However, when a cut was effected in taxes, the situation returned to normalcy. Taxes in India did not hit those for whom they were meant and the moral fibre of the country was shaken. 'We must take into account that human nature will remain human nature, continue to be human nature'. The policy should be formulated in the context of this understanding.

Dr P. S. Lokanathan, Director General of the National Council of Applied Economic Research, observed in a report that investments in India had depreciated by 42 per cent during the Third Plan, dividends were almost static, and sluggishness of the Indian stock market was a unique phenomenon. So Shri Palkhiwala described India's export policy as inconsistent and unstable and said that a commodity like tea, of which India had practically a monopoly, did not yield much

foreign exchange now. A total of 440 million lb. was exported by India, against 491 million lb. during the previous years. Even Pakistan exported more jute than India. The main reasons for such a plight were in unimaginative approach and poor display of commodities in foreign countries. The climate for free enterprise was not satisfactory. It was not contended that all controls should be removed—he was also not for *laissez faire*. Criticism was against the degree of level and much more in the interest of the common man. He was for a well regulated economy wherein unnecessary impediments were removed.

He said that there was in India today great imbalance between the agricultural and industrial progress. Shri Louis, a Negro socialist thinker, aptly described that an underdeveloped country tried to ride on two horses of economic equality and economic development. Even Russia could not do this. First emphasis should be on production. Referring to foreign private investment, he said that as against the target of Rs 300 crores, foreign investments in India were only Rs 130 crores during the Third Plan. Foreign indebtedness, which was *nil* in 1951, rose to Rs 2,629 crores in 1966. This was indeed a staggering debt. Shri Palkhiwala said that the rate of return of profit was 19 per cent in the private sector while it was as low as 1.7 per cent in the public sector in India. This was due to an unmixed emphasis on production, not on saleability.

DEMOCRATIC PLANNING—A FARCE

'It must be admitted that India's planning has been limping from the very beginning . . . the result is not only the food crisis, but the increasing poverty of the masses side by side with increasing prosperity for an insignificant slice of the population'. This assessment was made by Shri Jaya Prakash Narayan in an interview published in a London Weekly *Peace News* in its issue dated February 24, 1967. Asked how far the natural calamities were responsible for the food crisis, Shri Narayan said that while drought was 'a purely natural phenomenon', it should not have caused so much suffering. Bihar had some of the most fertile land in the country. It had mighty rivers which no drought can dry up. The State had enough ground water. In view of all these favourable factors, one year's drought, however severe, should not have been faced with hunger. 'The fact of the matter is that even though nature gave recurring warnings, the whole question of conservation and utilisation of the country's water resources never received serious attention'. India's planning had been on the twin wheels on which India should have moved forward—the giganticism of Shri Nehru held the field, placing a huge burden on the poor man's back without doing anything for him. Referring to the people's indifference, Shri Narayan said that 'centuries of degrading feudalism and colonial oppression besides many other psychosocial causes were responsible for it'. The political and social institutions of the country were foreign imports and had not grown from the soil. The result was that the people could not understand them and had been reduced to the position of 'idle and puzzled spectators'. Suggesting measures to awaken the initiative of the people, Shri Narayan said that 'selfless and trained volunteers should educate the people'

and help them to stand on their own, they should co-operate in solving the people's problems and assist in managing their affairs. 'The schools and colleges in the rural areas could have done a great deal. But unfortunately they have not understood their proper role. However, I am clear about one thing, this is the task which can be tackled only at the non-official rather than the official level'.

Shri J. P. Narayan, the Sarvodaya leader, said: 'We talk about democratic planning. Where is this democratic Planning? At what level does this take place? Has the Fourth Plan been democratically conceived?' India had a Planning Commission which was a 'mixture of experts and politicians'. It should have been a smaller body of real experts who could give policy directions, policy goals and guide the Government in achieving them. Planning in India was 'a kind of horse trading'. The Chief Ministers were not interested in setting up planning bodies at the State level. They come to Delhi demanding anywhere from Rs 500 to 5,000 crores and in the bargain settle for Rs 200 or 300 crores. The States had some sort of planning cells consisting of some top officers. 'What can they do? They have no time for planning'. 'Where is the plan of the village or the block or even the district? All that Planning meant now was filling up of some forms at the village level, probably by a village level worker or a *gram sevak*. It is all farce, this planning and democratic planning. Otherwise, I am quite sure that the people at the lower level could have given their co-operation much more independently'. People were always prepared to co-operate with the administration or the Government if it wanted the people's co-operation honestly. 'But if everyone wanted a bribe, what kind of co-operation can we get from the people ? our concept of public co-operation is people co-operating with the administration or the Government, but have we ever thought about the Government or administration co-operating with the public?'

FOURTH PLAN: A FICTION

WHY IS THE Government persisting with the fiction of a Fourth Plan? The first year saw only a Draft Outline without anything like a social and economic content, and the year soon ended with an unadmitted 'pause'. Parliament did not debate the draft. The country cannot be deemed to have a plan unless Parliament has approved it. The Planning Commission has been anxious to push through its document on the groove that it has worked it on for three years. This it was hoping to do, by convening a meeting of the National Development Council around the third week of January 1967. But this was not possible, as the Chief Ministers, who constitute the N.D.C. were too busy with politics and electioneering, and did not like to be disturbed. A more formidable difficulty was posed by the uncertain character of the Lok Sabha which might awkwardly challenge the authority of outgoing politicians, Chief Ministers and Parliamentarians to commit the nation to a plan which it might find objectionable.

In these circumstances, it was strange that the Prime Minister should cling to the myth of a Fourth Plan when there was none to bite at. Her answers on

this issue at a recent press conference were half-hearted and worse than unconvincing. She suggested that, even if there was no plan, the State Governments had their programmes.

This is the height of absurdity. In the first place, she might have asked herself if there still remained such a thing as a Planning Commission. Secondly, can a Five-Year Plan with distinct social and economic objectives, central policies and an overall sense of direction be equated with a few development programmes in the States? And, finally what part has the Prime Minister played in the decline of Yojana Bhavan and in confusing economic and social issues with politics and expediency?

Thanks to the inertia and incompetence of the Government, the Congress entered the general elections for the first time without a Five-Year Plan. It had every chance of facing the electorate with a new Plan of new dimensions and content. It was largely because the government had persisted with ministerial and party politics all along, even simple issues had been allowed to languish without direction and without thinking, and some wrong decisions taken in haste for the same reasons. Neither the Chairman nor indeed the Deputy Chairman of Planning Commission had given a new lead and direction to the Planning Commission in this country to meet the challenge of new problems and pressures. Because of the absence of earnestness, drift was inevitable, to cover which the fiction of figures has come in handy, and Shri Mehta was able to mutter 'Rs 23,750' crores any time the existence of a Fourth Plan was publicly questioned.

Yet, the Prime Minister owed it to the public to make a clear statement on where the Government stood on this question. The public must be told whether Five-Year Plans would hereafter give way to annual plans and individual programmes by the different constituents of the federal system, or whether the pause would continue until the economic crisis was mastered or thereafter. The uncertainty is bad not merely for producers, but also for the people. Regardless of the Fourth Plan, the people have become cynical about planning.

The Planning Commission is itself a shrivelled, anaemic and ageing body. As the Prime Minister herself said, apart from those members who left, some others are retired. What she did not mention was that even without this traffic, the Commission never really worked as a commission. It was frequently akin to a debating society of school boys, and was petty, quarrelsome, indifferent and sometimes even incompetent. Some only quarrelled, never contributed. And so, step by step, the Commission declined from its lofty height of past years. This was one factor in the slow progress in working out annual Plans. For example, the West Bengal Chief Minister and Shri Mehta fell out on the size of that State's Plan. Even the Central Plan was not ready. All this was a scathing indictment of the current state of affairs. It was an insult to public intelligence for New Delhi to try to sell the illusion that we still had a Fourth Plan.

FIFTEEN YEARS' SUCCESS AND FAILURES

SOME OF INDIA'S spectacular achievements, completely overshadowed by some of her failures during the past 15 years of planning, were detailed in a report to the ECAFE plenary session recently by the Indian delegate. In the western part of North India, with a population of 50 million, agricultural and overall growth was one of the highest in Asia. Similar growth had been achieved in parts of Madras and Andhra Pradesh covering 30 million people. In the industrial field, five major regions had achieved one of the world's highest growth rates in 15 years. In these regions, Indians, without outside assistance, were turning out a vast range of products from a pin to a jet plane. Indian industrialists and technologists were today in a position to fabricate and install by themselves cement factories, power plants and paper plants. Indian engineers and scientists were installing nuclear plants.

National averages did not bring out these remarkable successes. India's achievements must not be judged by her performance of only 1965 and 1966, the years of unprecedented natural calamities. The Indian delegate strongly advocated the setting up of a permanent ministerial body within the framework of the Economic Commission for Asia and the Far East (ECAFE) for a more efficient tackling of problems of the region. Such a body, with sectoral and functional units under it, would handle all aspects of economic co-operation within the region including intra-regional trade.

THE WORLD BANK AND INDIA: LATEST DIAGNOSIS

THE WORLD BANK President George Woods said on 4 May 1967 that India was at present passing through the most difficult period of her economic history. The Indian economy faced extremely serious problems and he could not say what things would look like, a year from now. Giving a personal assessment of the Indian economy the World Bank President said the main factor responsible for the deterioration of the economy was beyond the control of anyone in India. The monsoon had been unkind to the country for the consecutive years and a third year of drought might pose even more serious problems. An improvement in the economic situation depended to a great extent on the next monsoon. Replying to a question, Mr Woods said he, as the Chairman of the 10-member Aid India Consortium, had initiated discussions with the representatives of the Indian Government on all the three aspects of foreign loan repayments by India, the first of which was the amount of foreign exchange needed for debt servicing in the current fiscal year.

The World Bank and the Aid India Consortium realised that the current fiscal year was the most difficult in India's history. A few years from now, perhaps experts would say the lowest mark had been hit that year. He said he had been considering and discussing with the members of the Consortium, ways and means of relaxing foreign exchange requirements in connection with debt servicing in

the current fiscal year and the talks were making progress. But he made it clear that India had not pleaded for any concessions. The second aspect was the rescheduling of debt repayment in the subsequent years of the Fourth Plan period. It had been agreed that this question should be studied, reviewed and discussed. He was hopeful that a solution mutually acceptable would be found and that it would be helpful to India. The third aspect of the problem related to the terms and conditions in respect of debts which might be incurred by India in the future years. In this connection, the World Bank and its Affiliate, the I.D.A., and the Consortium countries had agreed that this question must be studied and reviewed. That too was under way.

The policy of the World Bank was to help India overcome her present difficulties. The World Bank was one of the largest creditors of India and India was a substantial shareholder of the Bank. One of the objectives of the Bank was to help increase productivity in underdeveloped countries. India, in his opinion, offered outstanding opportunities for discharging this objective of the Bank. As far as agriculture was concerned, the World Bank had evidence that the Indian Government was laying greater emphasis on increasing productivity in the agricultural sector. The Bank's policy was to give all possible assistance in that direction. The World Bank would do more in bettering collaboration with the Government and specially in collaboration with the private sector in the production of fertilisers.

Referring to a question on the state of the capital market in the country, Mr Woods said that the savings of the people were not mounting and the market reflected the uncertainty on the part of those who had savings. For an improvement in the basic economic situation, India should wait for the monsoon: 'You must recognise the fact that there may be small improvement or setback. You are going to be in difficulties and problems for another 5 or 6 months'. Asked as to why the Consortium countries had not taken a decision on project aid to India's Fourth Plan, there were many reasons and he would not discuss them publicly. 'The less said about it, the better'. He was, however, hopeful that in due course, aid would flow through the Consortium and outside for projects recommended. 'Efforts are being made in the direction of resumption of project aid. The World Bank is continuing its efforts'.

WORLD BANK REPORT ON INDIAN ECONOMY

India's economic situation is much worse than has so far been reported. The depression has spread through the country, the overall balance of payments deficit in 1967 should be about $1,800 million and will continue to rise, and the outlook for higher export earnings is gloomy. Recovery from the recession will be very difficult unless the countries of the Aid India Consortium commit at least $ 700 million this fiscal year (1967-68). These are the main conclusions to be drawn from the latest report on India by the World Bank. The report was prepared after a seven-man mission to India in July. The report has not been published. The report was studied at the Consortium meeting in Paris in November 1967. Its findings and conclusions will also be before the vital Consortium meeting, due

to be held in March or April at which the member countries will be asked to make their commitments for 1967-68, and may be also for later years.

The report's summary opens with the following words: 'even for a country as accustomed to economic difficulty as India, the present situation in the Indian economy can be described as unusually difficult'. In budgetary terms, 'the combination of price inflation and general recession has resulted in a marked deterioration in the budgetary situation'. The Government's revenue has fallen as its costs have increased and the fall in Government-financed investment both public and private—'has been a major contributor to the industrial slump, especially in the capital goods industries'. This is bad enough, but the report's summary of the future for exports compounds the gloom. 'Perhaps the most discouraging of the Indian economy has been that of exports. They dropped off last year and have not fully recovered this year. Nor is there much evidence of real ferment in the export sectors which would promise substantial improvement later on. . . .'

The report also assumes that if there is no change in I.M.F., the payments deficit to be financed this year will be about the same as last year's, about $1,800 million. This will probably go up by another $50 million next year, so that the deterioration in the payments position over 3 years will be nearly $300 million. Of the anticipated deficit this year, $ 250 million is not covered by previous commitments. Next year this figure is likely to be $550 million. Allowing for such factors as carry-over, the Bank would like the Consortium members to commit $700 million for this year, presumably at the spring meeting in Paris. The tentative requirement for 1968-69 is $820 million. The Bank Mission feels that if the $700 million is not committed, there is a serious risk that India will have to reverse its policy of removing the controls on imports.

Any increase in foreign aid, however, worsens the debt situation, which has deteriorated alarmingly since 1965. India's total debt outstanding in July was $7,318 million, compared to an average of $5,062 million for the previous 3 years. The debt service for 1967 was $319 million on public debt and $55 million on suppliers' credit. The most serious point here is that the climb in total debt has forced up the debt service ratio from an average of 13 per cent in the first half of this decade, to 24 per cent now. And this is during a period when gross foreign exchange reserves have moved from $610 million (equal to 3.1 months' imports), to $638 million (2.6 months). The Bank this year disbursed $50 million in interim debt relief and, it is understood, is asking members of the Consortium to consider rescheduling or refinancing debt repayments. Bank officials have privately mentioned a 20 per cent ceiling for debt service, a figure apparently born not of magic formula, but of rule of thumb. Despite its repeated calls for more foreign aid, and its judgment that India is going through a difficult bout of depression, there is a thread of hope running through the Bank report. If the weather next spring is as good as it was this autumn, 'there are good chances for a record foodgrain harvest for 1967-68' and a record harvest 'should start an economic recovery process', possibly by the middle of next year but probably rather later.

Appendix to Section II

ANNUAL PLANFRAME : 1968-1969

The Annual Plan for 1968-69 aggregates to slightly over Rs 2,337 crores as against an outlay of Rs 2,246 crores in 1967-68 and Rs 2,082 crores in 1966-67. A feature of the current year's Plan is that there is a special provision of Rs 140 crores in it for building up of a buffer stock of foodgrains. The outlay in the Plan for the Centre is Rs 1,319.73 crores, for the States Rs 952.33 crores and for the Union Territories Rs 65.37 crores, making up a total of Rs 2,337.43 crores. In addition to these outlays, institutional credit of the order of Rs 120 crores will be available for land development during 1968-69. Similarly, the Life Insurance Corporation is expected to provide Rs 12 crores for housing programmes. The Plan Document says that in real terms, national income in 1967-68 is expected to be nine per cent higher than in the preceding year. This high rate of growth emerges from the unduly depressed level of real income in 1966-67. If weather conditions do not turn out to be unfavourable and industrial production revives as envisaged, a rate of growth of five per cent may be attained during 1968-69. The anticipated growth rate in foodgrains production will be around 7.4 per cent and in industry five to six per cent at the end of the current year.

The distribution of plan outlay for the current year under main heads of development is as follows :

	Rs in crores
Agriculture, co-operation and community development	327.78
Irrigation and power	493.49
Organised industry and Minerals	539.33
Village and small industries	41.41
Transport and communications	426.16
Social services	347.39
Others	21.85
Buffer stocks	140.00

The Plan document says that with the recovery in the economy, some improvements in the current revenues of Central and State Governments is likely. Earnings of Departmental undertakings may also show a moderate rise, as also public savings, particularly because of abolition of food subsidy. On the basis of budget estimate 1968-69, net savings of the Central Government work out at Rs 241 crores. Some improvement may also be expected in private savings with further growth in national income. Even so, the rate of domestic savings may turn out to be about 8.5 per cent of the national income. As against this, external assistance is likely to be smaller at three per cent of national income. The Annual Plan document says that the overall approach for the current year in the context of the present economic situation is to secure a feasible rate of growth without generating inflationary pressures. The accent in the Annual Plan is on revitalising of the economy by providing for the immediate and short-term needs of the economy. At the same time, the long-term perspective is not lost sight of, inasmuch as the need to fill up vital gaps to ensure future development, has been a guiding consideration in the selection of projects for inclusion in the Annual Plan.

Sectorally, agriculture and those developmental activities which directly cater to the growing needs of agriculture have been given the highest priority. The new agriculture development strategy introduced in 1966-67, which aims at raising agricultural productivity through intensive measures embodying the package approach, introduction of high yielding varieties and multiple croping programmes, will continue to guide development of agriculture in the country during the current year as well. In respect of major irrigation, due

care has been taken to provide adequate outlay for such of the continuing schemes which are capable of yielding quick results and benefits. Minor irrigation programmes linked with rural electrification will receive increasing attention. In the programme of development of industries, the immediate consideration is the need for stepping up industrial growth which had tended to slow down in the preceding two years. In respect of essential overheads like power and transport and communications, the main emphasis is on the early completion of projects already underway. Amongst social services, a sizeable increase in the outlay under family planning has been proposed to match the urgency of implementing this programme expeditiously. The document shows that the Central and State Governments are expected to provide about Rs 1,154 crores from their domestic budgetary resources towards financing of the Annual Plan 1968-69. Budgetary receipts corresponding to external assistance are estimated at another Rs 876 crores. The balance of the Plan outlay amounting to about Rs 307 crores is expected to be met by deficit financing.

SECTION III

FINANCE

CHAPTER X

NATIONAL FINANCE

U.S.S.R. OUTPUT UP BY 10.6 PER CENT

THE SOVIET Union's industrial growth rate has reached 10.6 per cent and is again on the upswing, the official news agency Tass has reported. Tass credited the rise to economic reform, which gives some measure of financial and administrative independence to factories and other enterprises formerly under strict state control. The new rate compares with 8 per cent for the first half of last year and a low of 7.5 per cent in the first six months of 1964. Although the Tass story gave no clear indication of the extent to which the reform has spurred the economy, Soviet press articles have said the profit-oriented innovations led to immediate jumps of 20 per cent in industrial output in certain factories. Meanwhile, the Kremlin called for a large-scale overhaul of the country's service industries ranging from the building of more laundries to the establishment of special technical colleges for hair dressers. Managers of service industry enterprises are to be allowed to retain a larger portion of their profits to plough back into expanding their activities.

U.S. G.N.P. AND BALANCE OF PAYMENTS: 1967

THE PROSPECTS for the U.S. economy in 1967 are subject to many uncertainties, according to the annual economic survey of the United States, released recently by the Organisation for Economic Co-operation and Development (OECD). Prices have been rising relatively fast this year, the OECD experts point out, and the balance of payments has remained indefinite. Two major tasks of economic policy in 1967 must be to limit the rise in costs and prices, and to strengthen the balance of payments. The U.S. authorities are quoted by the survey regarding the rate of growth of real gross national product, which it is intended to maintain at 4 per cent next year. But these estimates are necessarily uncertain, the OECD warns, stressing that the expansion of demand has recently slowed down noticeably from the earlier hectic peace. On the other hand, it is likely that wages will continue to rise faster than productivity, with a rise in labour costs, the survey also points out that the import content of the defence build-up could entail a further deterioration of the current account balance of payments.

Recalling that the U.S. authorities have already recognised that traditional measures might be required to stop a further deterioration of the current account, the OECD experts suggest that 'a considerable tightening of monetary policy has already taken place. Given that its domestic impact tends to fall heavily on construction, it would seem appropriate that any further measures that may be required should be concentrated on fiscal policy. Action with strong impact on

civilian demand for products, produced by the Defence industries, would be desirable, since it would alleviate the pressures on wages, prices and imports where they are most strongly felt'. The survey recalls that on a liquidity basis of calculation, the balance of payments deficit for the first half of 1966 was held to the same annual rate as in 1965—$1,300 million. In the third quarter, it improved to an annual rate of $850 million, but it may rise again, by the end of this year, because the improvement of the capital account may be smaller than the decline in the current account surplus. The balance of payments prospects for 1967 depend heavily on both the rate of growth and the pattern of demand. The Administration aims at a growth of real GNP of 4 per cent. If this were accompanied by a levelling-off of Defence spending, the current account should improve substantially. The disappearance of the main dynamic element in the current expansion would have a marked impact on aggregate demand, and it would no doubt be accompanied by a weakening of private demand, notably inventory accumulation and business fixed investments. With the easier credit situation that would seem likely to develop, householding could pick up rather quickly, a temporary slow-down of the general expansion might be difficult to avoid, but it would not necessarily be very marked. The Government spending plans that are now being restrained could probably be activated fairly quickly.

JAPAN'S G.N.P. THIRD HIGHEST (ANNUAL RATE OF INCREASE) IN THE WORLD

JAPAN NOW RANKS fifth among world powers in terms of Gross National Product and third in such industries as ship building, synthetic fibres, petroleum refining and iron and steel, according to a report by the Sanwa Bank of Osaka. Economic development in Japan has been faster than in any other major country. Between 1956 and 1960, Japan's production increased 12.4 per cent annual rate, France's 11.5 per cent, West Germany's 9.2 per cent and Britain's 6.1 per cent. Production growth in the U.S. in this five-year period was only 4.8 per cent. The Sanwa Bank Report claims Japan led the world between 1961 and 1965 with an industrial growth rate of 14.8 per cent. The closest major country to this figure was France with 9.3 per cent, Britain with 6.6 per cent and the U.S. with 6.2 per cent.

Japan is certain to become the world's third-ranking industrial nation by the end of 1967 with an estimated Gross National Product of $114,000 million, following the U.S. and West Germany, according to a report issued by the Economic Planning Agency. In 1966, Japan ranked fourth, following the U.S., West Germany and France. The E.P.A. estimate was contained in documents accompanying a White Paper on the world's economy in 1967. It did not contain comparative figures for the Soviet Union. The report added that there is a very strong possibility Japan will, because the Japanese economy is considered most likely to attain a nominal economic growth rate of 10 per cent in 1968 despite all attempts by the Government to hold the growth in real terms to only 6.5 per cent.

JAPAN'S GROSS NATIONAL PRODUCT AND BALANCE OF PAYMENTS

JAPAN'S REAL economic growth rate in fiscal 1966 is estimated at 8.7 per cent and the growth rate at 13.7 per cent at market prices, Ajichiro Fujiyama, Director-General of the Economics Planning Agency, told a Cabinet meeting recently. The original estimates were 7.5 per cent and 11.3 per cent respectively. In a revised economic estimate, he said recovery was seen in personal spending, inventory investments and exports as a result of economic measures adopted by the Government. G.N.P. was expected to reach Yen 35,350,000 m. (£35,380 m.). Real economic growth rate may jump to more than 9 per cent depending on inventory investment activity and how the supplementary budget is prepared. The revised outlook for the payments balance computed on the I.M.F. formula is $9,850 m. for exports, up 14.7 per cent over the preceding year, and $7,700 m. for imports, up 18.3 per cent. The trade account is expected to show a surplus of $2,150 m., and the current account $1,100 m. But the favourable overall balance is put at $350 m. compared with $430 m. the previous year, because of the expected increase in the deficit in the capital transactions balance as a result of a rise in deferred payment financing.

PER CAPITA INCOME IN STERLING AREA

THE AVERAGE yearly income level of the poorer countries in the overseas sterling area is unlikely to reach £50 by 1975 without a considerable increase in aid. This emerges from a statistical model of the export performance of sterling area countries published in the current issue of the *National Institute of Economics Review*. India, Pakistan, Kenya, Nigeria and Tanzania—which together account for 90 per cent of the population of the overseas sterling area—all had average incomes of less than £30 in 1960. On the optimistic growth assumptions, derived from studies of export demand for their products, none would reach £50 by 1975 without roughly five times the aid currently provided. The Study is based on the assumed rate of growth of Western imports for the commodity exports of sterling area countries and a more tentative projection of possible manufactured exports. Prices, except for copper and tin (which would rise relative to aluminium) and raw cocoa and natural rubber (which may be expected to fall) are assumed to retain the same relationships as in 1960. For each country, an index figure for the likely growth of its exports has been calculated. This ranges from 8 per cent for Nigeria and 5 to 6 per cent for Jamaica, Ghana and Zambia, to about 2 per cent for Ceylon and New Zealand. From the expected growth of exports, and an assumption that foreign aid will be distributed more among the poorer countries than it has been in the past, growth rates of each country can be calculated. The National Institute Economists made two assumptions about total foreign aid: that it would remain at the 1962 level of $6,500 million and that it would rise to $12,000 million by 1975. On the two bases, and with either pessimistic or optimistic assumptions

about the growth of Western economies, four growth rates for each country are calculated. The projected rates range between about 7 per cent for Zambia and 5 per cent for Tanzania, Trinidad and Jamaica, to less than 4 per cent for Ceylon. The implications drawn by the Institute are that if growth in the oversea sterling area is to reach more acceptable levels, in view of the 2½ per cent annual increase in population, the foreign aid target of the United Nations of 1 per cent of the national income of Western countries will have to be increased or at least achieved. In 1964, only just over half this target was achieved and aid had not increased for 3 years.

GROWTH AND DISPOSAL OF GROSS DOMESTIC PRODUCT IN DIFFERENT COUNTRIES—INDIA'S STATUS

The United Nations Year Book of National Account Statistics, 1965, divides different countries into six groups according to annual average percentage increase in Gross Domestic Product (between 1950 and 1964), range being between below 2.5 and over 6.6. The foremost country is Rumania with 10.0 (Total G.D.P.) and 8.8 (*per capita*). The country with the smallest annual average increase is Uruguay with 0.03 and minus 1.1 respectively. India finds a place in group III with respective figures at 3.6 and 1.6. The following Table contains the data of a few countries selected from developed and developing areas:

Table 69

AVERAGE ANNUAL RATES OF GROWTH OF REAL GROSS DOMESTIC PRODUCT AT FACTOR COST IN DEVELOPED AND DEVELOPING COUNTRIES: 1950-64

Country	*Gross Domestic Product Total*	*Gross Domestic Product per capita*
(*i*) *Developed Countries*		
1. Japan	9.1	7.9
2. U.S.S.R.	9.1	7.3
3. West Germany	7.0	5.8
4. France	4.7	3.5
5. U.K.	2.6	2.2
(*ii*) *Developing Countries*		
6. Burma	5.8	3.7
7. Malaysia	4.8	1.6
8. Ceylon	3.5	0.9
9. Pakistan	3.3	1.2
10. Chile	3.3	0.9
11. World	5.2	3.4
12. Developed countries	4.2	3.0
13. Developing countries	4.5	2.5

The small progress in India has been due to the exploding rate of increase in population, frequent droughts, aggression by Pakistan and China, the emphasis on heavy industries involving long gestation periods and the unavoidable frictional relationship between democracy and planning. It may be noted here that the higher rates of growth in developing countries must compare unfavourably with developed countries for the simple reason that the base line is much higher in the latter compared to the former.

Table 70 gives data about percentage distribution of Gross Domestic Product according to origin, of some countries. Sudan secured in 1964, 51 per cent from agriculture while U.K. was at the lowest rung of the ladder at 4: G.D.P. from industry was the highest in Czechoslovakia at 64 per cent while Sudan was at the other end at 6. Detailed distribution relating to a few countries is given in Table 70:

TABLE 70

INDUSTRIAL ORIGIN OF GROSS DOMESTIC PRODUCT AT FACTOR COST—1964: PERCENTAGE DISTRIBUTION IN DIFFERENT COUNTRIES

Country	*Agriculture*	*Industrial activity*	*Construction*	*Transport and communication*	*Wholesale and retail trade*	*Others*
1. Sudan	51	6	8	...	17	18
2. Argentina	19	36	4	7	14	20
3. India	47	19	...*	...*	15	19
4. Japan	13	32	7	10	16	22
5. France	8	40	8	5	14	25
6. West Germany	5	45	8	6	13	23
7. U.K.	4	41	7	8	12	28
8. Czechoslovakia	14	64	9	3	9	1
9. U.S.S.R.	21	54	9	5	...	11
10. Thailand	35	14	6	8	18	19

* Included in total industrial activity.

Improvement in national income in India is rather slow, mainly because agriculture was comparatively neglected although contributing 47 per cent of G.D.P.

Table 71

DISTRIBUTION PATTERN OF GROSS DOMESTIC PRODUCT—1964: INDIA'S STATUS: PERCENTAGE DISTRIBUTION

<table>
<tr><th rowspan="2">Country</th><th rowspan="2">Per capita gross domestic product at factor cost in U.S. dollars</th><th rowspan="2">Private consumption expenditure</th><th rowspan="2">General Govt. consumption expenditure</th><th rowspan="2">Fixed capital formation</th><th rowspan="2">Increase in stocks</th><th colspan="2">Exports less imports</th><th rowspan="2">Net factor income from abroad</th></tr>
<tr><th>Goods</th><th>Services</th></tr>
<tr><td>1. India</td><td>82</td><td>79</td><td>7</td><td>15</td><td>...</td><td>...</td><td>...</td><td>2</td></tr>
<tr><td>2. Japan</td><td>671</td><td>52</td><td>10</td><td>34</td><td>5</td><td>11</td><td>11</td><td>1</td></tr>
<tr><td>3. United Kingdom</td><td>1,472</td><td>65</td><td>17</td><td>17</td><td>2</td><td>19</td><td>21</td><td>1</td></tr>
<tr><td>4. West Germany</td><td>1,541</td><td>56</td><td>15</td><td>26</td><td>1</td><td>20</td><td>18</td><td>...</td></tr>
<tr><td>5. U.S.A.</td><td>3,002</td><td>62</td><td>18</td><td>17</td><td>1</td><td>5</td><td>4</td><td>1</td></tr>
<tr><td>6. U.S.S.R.</td><td>N.A.</td><td>64</td><td>8</td><td>16</td><td>11</td><td colspan="3">1</td></tr>
</table>

The international picture is highly heterogeneous. *Per capita* income in 1964 ranged from U.S. $ 3002 in U.S.A. to U.S. $ 75 in Burma, private consumption was highest at 86 of G.D.P. in Jordan and the lowest in Japan at 52. Government consumption expenditure stood at 26 per cent in Iraq while Hungary showed only 4 per cent. Fixed capital formation was at 34 per cent in Japan and as low as 11 per cent in South Korea and El Salvador. The balance of trade in merchandise was highest in Luxembourg at 78 per cent and lowest at 1 per cent in the U.S.S.R. (India showing negative percentage). On service items, Luxembourg again topped the list at 83 per cent while the U.S.S.R. showed only 1 per cent. The very low standard of life in India has inevitably led to high private consumption and low fixed capital formation compared to Japan with 52 and 34 percentages respectively.

NATIONAL INCOME TARGET: FOURTH PLAN DRAFT

If the targets envisaged for the Fourth Plan are fully achieved, national income, it is estimated, will rise to Rs 30,530 crores by 1970-71 at 1965-66 prices. However, in view of factors like adverse weather, delays in securing external credits or in implementation and other unforeseen developments, it may be prudent to allow for a margin in the estimate of increase in national income over the Fourth Plan period—likely national income in 1970-71 may, therefore, be put at about Rs 29,500 crores at 1965-66 prices. If this level of national income is achieved, it will imply an increase of 38 per cent over the 1964-65 level

(Rs 21,400 crores) or 48 per cent over the estimated actual level of national income in 1965-66 at 1965-66 prices. Since 1965-66 was an abnormal year, the increase between 1965-66 and 1970-71 appears rather large. It would be more realistic to look at the increase in terms of the rise over 1964-65. On this basis, the compound rate of growth for the period 1964-65 to 1970-71 would be about 5.5 per cent per annum. *Per capita* income will go up from Rs 448 in 1964-65 to Rs 532 in 1970-71, i.e., by 3 per cent per annum (compound).

GROWTH OF *PER CAPITA* INCOME

Of a wide range of indicators of economic development, by far the most significant indicator is the growth of real *per capita* national income. Tables 72 and 73 show the relevant data as regards the actual achievement during the first three Plans compared with the targets for all the four Plans.

A modest target was overfulfilled during the First Plan—a bigger target was only half realised during the Second Plan. During the Third Plan, against the target of a 17 per cent increase, the actual increase achieved was just 1.7 per cent during 1962-63.

During the period 1950-51 to 1965-66, the average growth rate of real *per capita* income has been 6.5 per cent per quinquennium. Against that, the target for the Fourth Plan is 30.4 per cent. Unreality of the target is too obvious to need any comment. In this context, the Planning Commission has argued that 1965-66 was a very bad year and that any comparison of Plan-end positions which involves the year 1965-66 necessarily distorts the picture. But, even if we follow the practice adopted by the Planning Commission and take the year 1964-65 (instead of 1965-66) as a benchmark year, the compound annual growth rate of real *per capita* income between 1950-51 and 1964-65 works out at 1.8 per cent against 3.0 per cent, set as a target by the Planning Commission for the six-year period between 1964-65 and 1970-71. The envisaged step-up of the annual growth rate (in *per capita* terms) from 1.8 per cent to 3.0 per cent, is unlikely to be achieved. In fact, there is a strong possibility that the growth rate might slide down to around 1.5 per cent. The overall target of the growth of real *per capita* income during the six-year period (1964-65 to 1970-71) has been implicitly placed by the Planning Commission at 19.4 per cent. During the first two years (1965-66 and 1966-67), the growth in real *per capita* income is likely to show some decline. This would mean that the entire target of increase of 19.4 per cent (and a little more) in *per capita* income would have to be achieved during the following four years (1967-68 to 1970-71, both years inclusive).

Taking the various relevant factors into consideration, it would appear that, probably about half the six-year target of 19.4 per cent increase in the real *per capita* income will be realised (Table 72).

TABLE 72

GROWTH OF NATIONAL AND *PER CAPITA* INCOME IN INDIA

Rs abjas*

Year	National Income			Per capita Income		
	*At current prices**	*At 1948-49 prices*	*Per cent variation from previous year*	*At current prices Rs*	*At 1948-49 prices Rs*	*Per cent variation from previous year*
	(1)	(2)	(3)	(4)	(5)	(6)
1950-51	95.3	88.5	...	266.5	247.5	...
First Plan						
1951-52	99.7	91.0	2.8	274.2	250.8	1.1
1952-53	98.2	94.6	4.0	265.4	255.7	2.2
1953-54	104.8	100.3	6.0	278.1	266.2	4.1
1954-55	96.1	102.8	2.5	250.3	267.8	0.6
1955-56	99.8	104.8	1.9	255.0	267.8	0.0
Rise during First Plan						
Actual	...	...	18.4	...	...	8.2
Target	...	...	11.0	...	...	4.2
Second Plan						
1956-57	113.1	110.0	5.0	283.3	275.6	2.9
1957-58	113.9	108.9	−1.0	279.6	267.3	−3.0
1958-59	126.0	116.5	7.0	303.0	280.1	4.8
1959-60	129.5	118.6	1.8	304.8	279.2	−0.3
1960-61	141.4	127.3	7.3	325.7	293.2	5.0
Rise during Second Plan						
Actual	...	...	21.5	...	...	9.5
Target	...	...	25.0	...	...	18.0
Third Plan						
1961-62	148.0	130.6	2.6	333.6	294.3	0.4
1962-63	154.0	133.1	1.9	339.4	293.4	−0.3
1963-64	172.1	139.7	5.0	370.9	301.1	2.6
1964-65	200.1	150.5	7.7	421.5	317.0	5.3
1965-66	199.9 (*a*)	144.9 (*b*)	−3.7 (*b*)	N.A.	298.3 (*b*)	−5.9 (*b*)
Rise during Third Plan						
Actual	...	...	13.8	...	...	1.7
Target	..	...	30.0	...	...	17.0
Rise during Three plans, i.e. since 1950-51	...	...	63.7	...	...	20.5
Compound Annual Growth Rate per cent 1950-51 to 1965-66	...	...	3.3	...	...	1.3
Average achievement per plan period	...	...	17.9	...	...	6.5

(*Contd.*)

TABLE 72

GROWTH OF NATIONAL AND *PER CAPITA* INCOME—(*Contd.*)

Year	*National Income* At current prices*	At 1948-49 prices	Per cent variation from previous year	*Per capita Income* At current prices Rs	At 1948-49 prices Rs	Per cent variation from previous year
	(1)	(2)	(3)	(4)	(5)	(6)
Fourth Plan						
1966-67 ('quick estimate')	...	...	1.7	...	...	-0.7
Target	...	...	48.0 (*a*)	...	...	30.4 (*c*)

* Rs 100 crores.

Sources: For the years 1950-51 to 1964-65, data under columns 1, 2, 4 and 5 have been taken from Central Statistical Organisation 'Estimates of National Income' (February, 1964 and March, 1966). The sources for the rest are as under:

(*a*) Planning Commission, 'Fourth Five Year Plan—A Draft Outline' (August, 1966, p. 61).

(*b*) Central Statistical Organisation, Press release on quick estimates of real national income and *per capita* income.

(*c*) The target national income and *per capita* income by the end of the Fourth Plan have been derived in the following manner:

	1965–66		*1970–71*
1. National Income at 1965–66 prices (Rs crores)	19,990		29,500
2. Index of national income at 1965-66 prices	100.00		147.57
3. Annual rate of population growth during the period 1966–70		2.5 per cent	
4. Index of population	100.00		113.14
5. Index of real *per capita* income	$\frac{147 \times 100}{113.14} =$		... 130.4

Sources and Method for (*c*):

Lines 1 and 3 from Planning Commission 'Fourth Five Year Plan—A Draft Outline' (pp. 61 and 346 respectively).

A 'quick estimate' of national income for 1966-67 prepared by the Statistical Organisation showed an increase of 1.7 per cent in real terms over that of the preceding year. Due to the population increase, the *per capita* income, however, was estimated to show a decline of 0.7 per cent.

Table 73

TRENDS IN INDIA'S NATIONAL INCOME

Year	*National Income at 1948-49 prices (Rs 100 crores)*	*Per capita Income (in Rs) at 1948-49 prices (based on 1941, 1951 and 1961 population census figures)*
1950–51	88.5	247.5
1955–56	104.8	267.8
1960–61	127.3	293.2
1961–62	130.6	294.3
1962–63	133.1	293.4
1963–64	139.7	301.1
1964–65*	150.5	317.0
1965–66†	144.9	298.3

* Preliminary. † Quick.

Per capita income in India at the end of the Third Plan was about the same as at its beginning, official estimates indicate. From Rs 293.2 in 1960-61, *per capita* income (at constant prices) rose to Rs 317.0 in 1964-65 but in 1965-66 it again came down to Rs 298.3. National income rose from Rs 12,730 crores in 1960-61 to Rs 15,050 crores in 1964-65. In 1965-66, thanks to the widespread drought and aid bottlenecks, it came down to Rs 19,990 crores. National income target set in the Third Plan was 30 per cent. Over the 5 years of the Plan, the annual growth rate of national income was less than half of the 5 per cent aimed at. National income increased at the rate of only 2.6 per cent in the first year of the Plan and at 1.9 per cent in the second year. This was followed by a rapid recovery in the next 2 years, national income having increased by 5.0 per cent in the third and by 7.7 per cent in the fourth year. But in the fifth year it declined by—3.7 per cent. The last year of the Plan is regarded as an abnormal year. According to official calculations, the 'potential' for national income in 1965-66 was Rs 17,180 crores and that for *per capita* income Rs 351. It is on these potential estimates that Fourth Plan projections were worked out.

NATIONAL INCOME AND DISTRIBUTION

The seven accompanying tables on India's National Income, etc., reveal the following main features:

1. Published figures pertain to 2-3 years prior, while in countries like U.S.A., Japan and U.K., latest figures are given within a few months after the financial year. For this reason, Indian figures prove of small value, the reader not knowing what has happened during the last 2-3 years.

TABLE 74

NATIONAL AND *PER CAPITA* INCOME—UPTO 1964-65: INDIA

Period	*National Income (Rs abjas = 100 crores)*		*Per capita Income (Rs)*	
	At current prices	*At 1948–49 prices*	*At current prices*	*At 1948–49 prices*
1948–49	86.5	86.5	249.6	249.6
1949–50	90.1	88.2	256.0	250.6
1950–51	95.3	88.5	266.5	247.5
1955–56	99.8	104.8	255.0	267.8
1956–57	113.1	110.0	283.3	275.6
1957–58	113.9	108.9	279.6	267.3
1958–59	126.0	116.5	303.0	280.1
1959–60	129.5	118.6	304.8	279.2
1960–61	141.4	127.3	325.7	293.2
1961–62	148.0	130.6	333.6	294.3
1962–63	154.0	133.1	339.4	293.4
1963–64	172.1	139.7	370.9	301.1
1964–65*	200.1	150.5	421.5	317.0
	Percentage change†			
First Plan	+4.7	+18.4	−4.3	+8.2
Second Plan	+41.6	+20.4	+27.7	+8.6
First and Second Plans	+48.3	+42.6	+22.2	+17.5

* Provisional. † Adjusted for changes in Statistical coverage.

TABLE 75

NET NATIONAL OUTPUT AT 1948-49 PRICES—SECTORAL DISTRIBUTION: INDIA

(Rs crores)

Item	*1950–51*	*1960–61*	*1964-65**
Agriculture, animal husbandry and ancillary activities	4,340.0	5,900.0	6,500.0
Mining, manufacturing and small enterprises	1,480.0	2,100.0	2,550.0
Commerce, transport and communications	1,660.0	2,460.0	2,970.0
Other services	1,390 0	2,310.0	3,140.0
Net domestic product at factor cost	8,870.0	12,780.0	15,160.0
Net earned income from abroad	−20.0	−50.0	−110.0
Net national output at factor cost—national income	8,850.0	12,730.0	15,050.0
Percentage Distribution			
Agriculture, animal husbandry and ancillary activities	49.0	46.4	43.2
Mining, manufacturing and small enterprises	16.7	16.6	16.9
Commerce, transport and communications	18.8	19.8	19.7
Other services	15.7	18.1	20.9
Net domestic product at factor cost	100.2	100.4	100.7
Net earned income from abroad	−0.2	−0.4	−0.7
Net national output at factor cost—national income	100.0	100.0	100.0

* Provisional.

TABLE 76

NATIONAL INCOME BY INDUSTRIAL ORIGIN: INDIA

(at current prices; percentage distribution)

Item	*1948–49*	*1950–51*	*1960–61*	*1964–65**
Agriculture:	49.1	51.3	48.7	51.3
Agriculture, animal husbandry and ancillary activities	48.1	50.2	47.2	50.0
Forest	0.7	0.7	0.8	0.7
Fisheries	0.3	0.4	0.7	0.6
Mining, manufacturing and small enterprises:	17.1	16.1	18.4	18.0
Mining	0.7	0.7	1.1	1.1
Factory establishments	6.3	5.8	9.4	10.3
Small enterprises	10.1	9.6	7.9	6.6
Commerce, Transport and Communications:	18.5	17.7	16.6	14.8
Communication, post and telegraph and telephone	0.3	0.4	0.4	0.6
Railways	2.0	1.9	2.6	2.6
Organised banking and transport	0.6	0.7	1.1	1.4
Other commerce and transport	15.6	14.7	12.5	10.2
Other services:	15.5	15.1	16.7	16.4
Professions and liberal arts	5.0	4.9	5.2	4.8
Government services (administration)	4.6	4.5	6.4	7.4
Domestic services	1.4	1.4	1.4	1.2
House property	4.5	4.3	3.7	3.0
Net domestic product at factor cost	100.2	100.2	100.4	100.5
Net earned income from abroad	−0.2	−0.2	−0.4	−0.5
Net national output at factor cost—national income	100.0	100.0	100.0	100.0

* Provisional.

TABLE 77

SHARE OF GOVERNMENT IN DOMESTIC PRODUCT (AT CURRENT PRICES)

1950-51 TO 1962-63: INDIA

Item	*1950-51*	*1960-61*	*1962-63*	*1950-51*	*1960-61*	*1962-63*
		(Rscrores)			*Per cent*	
A. Govt. share in generation of net domestic product :						
Net output of Govt. enterprises	290.0	570.0	670.0	3.0	4.0	4.3
Net output of Govt. administration	430.0	900.0	1,170.0	4.5	6.4	7.6
Net output of the private sector	8,830.0	12,720.0	13,640.0	92.5	89.6	88.1
Net domestic product	9,550.0	14,190.0	15,480.0	100.0	100.0	100.0
B. Govt. draft on private income :						
Direct taxes	230.0	390.0	480.0	2.4	2.7	3.1
Indirect taxes	430.0	1,050.0	1,330.0	4.5	7.3	8.5
Miscellaneous fees, etc.	110.0	200.0	210.0	1.1	1.4	1.3
Private income	9,600.0	14,370.0	15,700.0	100.0	100.0	100.0

2. Even at current prices, *per capita* income in India is in the lowest stratum. This has been further amplified by figures given in earlier paragraphs.
3. At the end of Fifteen Years of Planning, national income at constant prices rose only by 20.5 per cent, the latter yielding an annual average of 1.37 per cent. This is rather poor tribute to Plan effort, but the three main hindrances were population explosion, natural calamities like drought and aggression from Pakistan and China.
4. Agriculture continues to be the main stay at 51.3 per cent of National income, while 14.8 per cent was contributed by Commerce, Transport and Communication. The room for Secondary and Tertiary productions is quite wide.
5. In spite of the avowed socialist policy, net expenditure of the private sector comprises 83.5 per cent of the National income while Government expenditure including administration and enterprises accounts for only 16.5 per cent.
6. Out of net national expenditure at current prices of Rs 16,840 crores in 1962-63, Government expenditure amounted only to Rs 2,780 crores making up 16.5 per cent. This proves that the socialist economy in India is yet to develop, and free enterprise pervades the bulk of the picture. At present, there is somewhat like a tug-of-war between the Congress pulling towards more of controls, and the Government pushing forward a policy of more decontrol —with a view to rejuvenate indigenous enterprise and attract foreign capital.

TABLE 78

SHARE OF GOVERNMENT IN NATIONAL EXPENDITURE—1948-49 to 1962-63: INDIA

(Crores of Rs)

Year	*Current expenditure on commodities and services (administration)*	*Capital expenditure (administrative)*	*Capital expenditure (enterprises)*	*Total Government expenditure*	*Net national expenditure at market prices*
1948-49	640 (7.1)	100 (1.1)	110 (1.2)	850 (9.4)	9,060
1950-51	560 (5.6)	100 (1.0)	170 (1.7)	830 (8.3)	10,030
1955-56	720 (6.8)	220 (2.1)	350 (3.3)	1,290 (12.2)	10,660
1960-61	1,140 (7.4)	350 (2.3)	430 (2.8)	1,920 (12.5)	15,330
1961-62	1,260 (7.9)	380 (2.4)	570 (3.6)	2,210 (13.9)	16,140
1962-63	1,570 (9.3)	460 (2.7)	750 (4.5)	2,780 (16.5)	16,840

Superimposed on these real or long-term factors were the monetary factors which played an important part in the price rise, particularly during the Third Plan. The most important of these monetary factors was the expenditure by the Central and State Governments and local authorities, which has shown a substantial rise, particularly in the Third Plan.

TABLE 79

NET NATIONAL INCOME AND EXPENDITURE: INDIA

Period	*Government expenditure*	*Net national expenditure*	*Net national income*	*Percentage of Col. (1) to*	
	(Rs. abjas-average)			*Col. (2)*	*Col. (3)*
First Plan (1951-52 to 1955-56)	10.3	105.7	99.7	9.7	10.3
Second Plan (1956-57 to 1960-61)	17.5 (8.7)	134.5 (7.6)	124.8 (7.3)	13.0	14.0
Third Plan (1961-62 to 1964-65)	31.0 (18.3)	182.3 (8.2)	168.9 (9.2)	17.0	18.4

The share of Government in the net national expenditure which averaged about 10 per cent during the First Plan rose to 13 per cent in the Second and further to 17 per cent in the first four years of the Third Plan. In fact, the proportion for the Third Plan would be somewhat larger if the year 1965-66 was also considered. More important than the average share is the rate of rise in Government expenditure. In the first four years of the Third Plan, the annual rate of rise in Government expenditure at 18.3 per cent was more than twice the rate (of 8.7 per cent) in the Second Plan. Moreover, the rate of rise in Government expenditure during the Third Plan was twice the rate of rise in net national income at current prices—indicating that the public sector has been claiming the greater part of the increase in national product. In contrast, the share of private expenditure in the net national expenditure seems to have declined steadily from about 90 per cent in the First Plan to 87 per cent in the Second and further to 83 per cent in the Third. Besides, the rate of rise in private expenditure in the Third Plan was smaller, as may be inferred from the fact that the rate of increase in Government expenditure was much larger than that in the total net national expenditure. Thus the substantial rise in Government expenditure has been the important factor in the expansion of monetary demand, particularly in the Third Plan.

According to quick estimates for 1965-66, the last year of the Third Plan, national income (or net national output at factor cost) at constant (1948-49) prices is placed at Rs 14,490 crores—a decline of 3.7 per cent over the level of Rs 15,050 crores attained in 1964-65. In the first four years of the Third Plan (1961-62 to 1964-65), national income had registered increases of 2.6 per

cent, 1.9 per cent, 5.0 per cent and 7.7 per cent respectively. *Per capita* national income at constant prices also declined from Rs 317.0 in 1964-65 to Rs 298.3 in 1965-66—a decline of 5.9 per cent, in contrast to an increase of 5.3 per cent in 1964-65.

The shortfall in national income during 1965-66 was mainly due to unprecedented drought conditions resulting in a sharp setback to agricultural production. Income from agriculture fell by 15.7 per cent in 1965-66 as against an increase of 8.9 per cent in 1964-65. The contributions of individual sectors to overall percentage change in real national income during 1965-66 are given in the table below:

TABLE 80

SECTOR-WISE CONTRIBUTION TO NATIONAL INCOME IN INDIA

Sector	*Percentage contribution to total national income in 1964-65*	*Percentage change in 1965-66 over 1964-65*	*Contribution to the overall percentage change in 1965-66 over 1964-65*
Agriculture (proper)	36.9	–15.7	–5.8
Mining and Factory Establishments	10.4	5.7	0.6
Communications	0.6	10.7	0.1
Railways	2.6	9.8	0.2
Organised Banking and Insurance	1.1	5.8	0.1
Other Commerce and Transport	15.5	–2.0	–0.3
Others	32.9	4.2	1.4
All Sectors	100.0	–3.7	–3.7

NATIONAL FINANCE: 1967-68

The price level now is 6 per cent lower than the level at the end of the previous year. The balance of payments has shown an improvement. The capital market is somewhat in better shape and there is more confidence all round. The welcome change in the economic climate and in expectation augurs well for the much needed resumption of economic growth. But no further increase in prices and costs can be permitted. The need is in fact to improve productivity and to allow a part of the gains in productivity to accrue to the consumer by way of reduced price and improved quality of output and service. The situation calls for special effort to prevent the emergence of wage-cost push. Basically the resumption of growth with stability depends vitally upon the success both of public authorities and of private investors in mobilising large savings, which necessarily involves restraint on the claims of the different sectors for a larger share for themselves for current consumption. It calls for special effort and monetary policies have a crucial role in the maintenance of price stability with the acceleration of the growth process. The existence of unutilised capacity in the industrial sector offers scope

for an increase in output without immediate additions to fixed capital investment. Fullest efforts to mobilise savings from sectors hitherto insufficiently tapped will be needed. Greater attention is needed to the securing of adequate surpluses from the investments already made and from those coming into fruition from year to year. National income at constant prices during fiscal year 1967-68 is estimated to have risen by 9.3 per cent as against only 1.7 per cent in 1966-67.

The production of food grains at 95.6 million tonnes is estimated to be higher by about 29 per cent over that in the previous year. While satisfactory monsoon has been a major contributory factor, the result is also related to the additional production potential built up in recent years through the spread of new techniques of cultivation and the larger availability of inputs like improved seeds, fertilisers and pesticides. The industrial sector continued to remain sluggish till the end of December, 1967 but the growth rate improved during January-April 1968 owing to the better availability of raw materials, revival of demand and measures taken to stimulate industrial production.

Monetary resources (currency with the public and aggregate deposit with banks) increased during the year by about 11.0 per cent as against a rise of 8.3 per cent during the previous year. The major factor contributing to this expansion was the extension of substantial credit by banks for food procurement operations. Wholesale prices declined by 6.1 per cent over the year in contrast to sharp rise of 15.8 per cent in 1966-67. The increase in exports was significant as it represented a reversal of the declining trend of the post-devaluation period. Rescheduling of debt as well as refinancing by some members of the Aid-India Consortium and the special deposits from I.B.R.D. lessened the strain on reserves caused by debt-servicing. Although there was improvement in the general economic situation, there was no clear upward trend in actual investment. The capital issues consents rose sharply, but actual capital raised showed only marginal rise and the sanctions as well as the disbursements relating to the assistance by the term-lending institutions actually declined.

The stock market remained depressed for the greater part of the year July 1967-June 1968. Over the year, however, the Reserve Bank's index of prices of variable dividend industrial securities recorded a net rise of 4.5 per cent in contrast to the net decline of 4.0 per cent in the preceding year. Aggregate financial assistance sanctioned by the term-lending institutions in the form of loans, underwriting and direct subscription to shares and debentures declined steeply from Rs 122 crores in 1966-67 to Rs 86 crores in 1967-68.

With the easing of pressure on prices, the accent of policy shifted to the promotion of a more broad-based revival of the economy. In agriculture, the stress is on the extension of the area under high-yielding varieties and other programmes, adoption of scientific methods of cultivation and better water management. The support prices of agricultural commodities have been raised, and it has been decided to build up a sizeable buffer stock of food grains through procurement and imports.

With regard to credit situation and credit policy, the credit situation during the year was marked by a much faster pace of credit expansion than last year accom-

panied by only a moderately higher rate of deposit accrual. The accent of monetary policy was on keeping a restraint on the growing inflationary pressures in the economy by minimising the extent and duration of the Reserve Bank's lending to commercial Banks. However, the Bank took care to see that the impact of restrictive credit measures was softened by a selective liberalisation of credit for productive and developmental activities in the economy. Since August-September 1967, there has been a shift of emphasis towards helping the revival of industrial production, particularly in industries facing recessionary conditions and stimulating the flow of credit to priority sectors like agriculture, small industries and exports. With the bumper harvest of 1967-68, the accent on liberalisation became more pronounced. A major development in the institutional field during the year was the enunciation by Government of a policy of social control over commercial banks. The object of this move is to facilitate a more purposeful distribution of banks credit and to correct the excessive association of banks with particular industrial or business interests. The National Credit Council is to study the credit requirements of various sectors, the resources available and the ways and means of augmenting them and provide guide-lines for action by the banking sector. The National Credit Council has met twice and set guide-posts for bank lending legislation designed, *inter alia*, to reconstitute the Boards of Directors of the Indian commercial banks, appointment of professional bankers as full-time Chairman and prohibition of loans and advances to directors and their concerns has been taken in hand. Foreign banks are expected to set up advisory boards on loans similar to those prescribed for Indian banks. Both the major Indian banks and foreign banks have taken steps towards this end. In the sphere of commercial banking legislation, measures were promoted to bring the banking system under social control. Efforts to consolidate and strengthen the banking structure through voluntary merger and compulsory amalgamation and through annual inspection and supervision were continued. The progress made in the branch expansion programmes of the State Bank of India and its subsidiaries as also of the commercial banks was impressive. In the field of Co-operative banking, the important developments took place such as the introduction of legislation for extending facilities for deposit insurance to co-operative banks. In the field of Co-operative credit policy, the Fertilizer Credit Committee, which was appointed by the Fertilizer Association of India, submitted its report in February 1968. One of the important recommendations of the Committee was the setting up of a Fertilizer Credit Guarantee Corporation for ensuring adequate institutional credit facilities for distribution of fertilisers. The recommendations are being examined by the Reserve Bank. During the accounting year ended June 30, 1968, the Bank's income, after making statutory and other provisions, amounted to Rs 92.92 crores as against Rs 85.12 crores in 1966-67. The expenditure amounted to Rs 27.92 crores as against Rs 25.12 crores in the previous year. The net profit available for payment to the Central Government was Rs 65 crores as against Rs 60 crores paid, during 1966-67.

CHAPTER XI

PUBLIC FINANCE

FISCAL POLICY AND CAPITAL FORMATION

CAPITAL FORMATION is at once an index and an instrument of national economic growth. It is that part of the annual increase in national income which is diverted away from consumption, into the creation of new capital assets. Growth-economists like Prof. Rostow and Prof. W. Arthur Lewis have, therefore, formulated the theorem that an economy can be said to have reached the 'take-off' stage if its rate of capital formation rises from the level of 5 per cent, typical of an under-developed country, to an annual level of at least 12 per cent. The logic of this reasoning, though over-simplified, is clear. Given an annual rate of population growth of about 2.5 per cent and given the fact that normally 3 units of capital input are required to secure one unit of increase in national income, then merely to maintain its existing *per capita* income, a nation must make a demographic investment of 7 per cent. There is at this stage no economic investment taking place. For this to occur in a manner that the *per capita* income may rise, an investment of at least another 5 per cent on top of the demographic investment must take place, bringing the total rate to at least 12 to 13 per cent.

In Table 81, it can be seen that our rate of capital formation in 1950-51 was a stationary one of 5 per cent; over the 15 years, we have moved to the take-off rate of 14 per cent. Of course, as shown in column 2, foreign aid is playing an immensely important part in this process, supplying as it did nearly 25 per cent of our national savings in 1965-66.

TABLE 81

CAPITAL FORMATION IN THE INDIAN ECONOMY: 1950-51 to 1965-66

Year	*Domestic Savings*	*'Foreign aid' Savings*	*Total National Savings*	*Total National Tax-Revenues*
	As per cent of national income			
1950–51	5.0	neg.	5.0	7.8
1955–56	7.0	1.0	8.0	8.1
1960–61	8.5	2.5	11.0	10.1
1965–66	10.5	3.5*	14.0	14.2
1970–71 (Target)	15.5	2.5	17.5	17.0

* Exclusive of P.L. 480 food imports.

Fiscal policy operating on the economy, both through the collection of taxes and the disbursement of expenditures, exercises a profound impact on the rate of capital formation. The volume of taxes that are raised, the manner in which they are raised and the sources from which they are raised, decisively influence at every stage the willingness of the nation to work, to save and to invest. Likewise, the sectors of the economy into which Government expenditures are pumped also affect the rate of national capital formation. Thus, are these sectors those which have a high propensity to consume? Are the areas in which Government is pumping money, those which are complementary to the private sector, or are they competitive to it? In weighing the incidence of the fiscal system on a nation's capacity and willingness to save, it is this totality of effects on the side of both taxation and expenditure which must be considered, the entire fiscal balance of payments so to say, and not the tax-system alone.

There must be a physical basis to fiscal policy. There must be institutions created and sustained which translate the savings of the people into investments. There must be built an infra-structure of economic facilities without which new investment opportunities cannot be created—low tax rates by themselves do not create economic opportunities! Again, taxes utilised by Government for expenditure can play no small part in generating demand for products of the private sector. There is a definite limit to high tax rates, but low tax rates by themselves are no keys to the Kingdom of Heaven.

The responsibilities of fiscal policy in developing countries are enormous. In the first place, the task of pushing up the rate of capital formation is primarily that of pushing up the tax revenues, and in this connection, it will be seen from col. 4 in Table 81, how the contribution of our tax revenues to national income has risen from 7.8 per cent at the start of planning to 14.2 per cent at the end of the Third Plan.

Prof. W. Arthur Lewis has recently stated that the quantity and quality of Government activity which underdeveloped countries now demand for themselves cannot be provided (taking central and local Governments together) for less than 20 per cent of gross domestic product, even when defence and debt charges are excluded. As in the case of the 'take-off' theorem, so in this case, the Indian economy in the last 15 years has fulfilled this test, as is seen in Table 82. The ratio of governmental expenditure to national income has climbed up appreciably from 9.4 per cent in 1950-51 to 27.4 per cent, and even excluding defence and debt services, the share of Governmental expenditure in 1965-66 in the total national income is as high as 20.4 per cent.

But the efficiency of a fiscal system is not to be judged merely by its efficiency in raising resources. The *how* of it is supremely important. One of the most disastrous victories won by the Third Plan has been in the field of taxation where against the target of additional taxation of Rs 1,710 crores, the actual realisation has been nearly 70 per cent greater. Apart from its fatal effects on individual capital formation as distinguished from institutional capital

TABLE 82

SHARE OF GOVERNMENTAL EXPENDITURE IN NATIONAL INCOME (AT CURRENT PRICES): INDIA

(Rs crores)

Year	National Income	Government expenditure	
		Total	Minus defence and debt servicing
1950–51	9,530	898.05 (9.4)	648.2 (6.8)
1955–56	9,980	1412.06 (14.2)	1,098.9 (11.0)
1960–61	14,140	2618.3 (18.5)	2,073.4 (14.7)
1965–66 (Revised)	20,000	5470.4 (27.4)	4,087.0 (20.4)

(Figures in brackets indicate percentage to national income.)

formation, the onslaughts of the fiscal system in the Third Plan have reversed a trend of great significance.

All these welcome features were beginning to make themselves evident, in spite of the obvious over-speculation that took place. The high prices people were prepared to pay especially for new scrips were, in fact, a vote of confidence in the economic future of the country. People were prepared to discount the risks of the future, though the way some behaved showed that they discounted not merely the future but the hereafter! But all the same, a great psychological break-through was taking place, and it seemed for the first time that the democratisation of shareholding was beginning to take place, with the number of shareholders rising from about 4 to 5 lakhs to about 6 to 7 lakhs during a period of four years.

The present depression in the stock market has significantly reversed many of these welcome features. It is perfectly true that fiscal policy alone is not responsible for it; it started the rout, monetary policy aggravated it, and the general economic crisis completed it. Money is being pumped out from the stock market to go into fixed deposits and into speculation in commodities. Perhaps, the commodity-inflation we have been witnessing to our great sorrow and suffering in recent years may be in no small part due to the shift of funds away from industrial investments to commodity speculation.

Many developing countries needlessly concentrate on raising resources through taxation, borrowings and even deficit financing instead of concentrating their time and talent on securing the quickest and the most productive utilisation of their assets created. If the ordering of the economic priorities is correct,

then the pay-back of their investments will also be large, and correspondingly, their tax-requirements will also be proportionately less.

One very important reason why the corporate industrial sector in India is taxed so savagely is that the tax revenues from agriculture are relatively so low. There are three reasons for this situation; one political, the second administrative and the third economic. The political reason is the fear of taking the rural masses, the administrative reason is the inability to evolve an entire tax-machinery which will equitably and adequately realise tax-revenues from the far-flung areas of the country. But there is the third difficulty, which is not adequately stressed.

Again and again, the point is made both by Indian and foreign economists that unlike Japan, which in the early stages of her development taxed her agriculture vigorously, India is failing to do likewise. But the point is entirely missed that Japan started taxing her agriculture when the latter was scoring what, given the then technology, were very significant increases in her farm productivity (Table 83). Perhaps, farm taxation was more severe than it need have been in the drive towards industrialisation, but the basic fact was that agriculture was able to create surpluses: if we also had secured such marked productivity gains from our agriculture, then in a variety of ways, the ability of agriculture to bear increased taxation would also have been correspondingly greater, to the great benefit of the small non-agricultural sectors which are today bearing such a heavy brunt of taxation.

TABLE 83

JAPAN: RATES OF SAVING AND INVESTMENT IN AGRICULTURAL AND NON-AGRICULTURAL SECTORS 1888-1892 to 1908-1912

Year	*Agricultural sector*			*Percentage share of tax*	
	Rate of saving	*Rate of investment*	*Surplus saving*	*Agricultural sector*	*Non-agricultural sector*
			Per cent		
1888–1892	10.3	4.3	6.0	85.7	14.3
1893–1897	12.9	4.3	8.6	83.3	16.7
1898–1902	13.3	2.9	10.4	73.7	26.3
1903–1907	10.9	2.4	8.5	58.9	41.1
1908–1912	11.8	1.8	10.0	53.7	46.3

Again the heavy emphasis on heavy industries has not only necessitated heavy taxation, but also made this a continuous necessity. Given the very long gestation period of such investments, and the very low yields from these investments due to lack of experience and expertise in the initial stages, the pay-back to the economy is considerably delayed. If we secured on the Rs 2,500 crores

of investment in the public sector a rate of return of 10 per cent instead of the current rate of 2.5 per cent, we would have at least Rs 200 crores more in our budget resources. What relief this would have meant can be seen from the fact that the over-burdened corporate sector alone today pays Rs 375 crores.

Prof. Mahalanobis once said that by 1970, the surpluses from public sector investments will be so sustained and substantial as to then render additional taxation unnecessary. May be to our joy he proved right, but at present there is no hope of such a situation. The point then is, that tremendous burdens are unnecessarily imposed on fiscal policy by the failure to have the right pattern of economic priorities and to secure the most productive utilisation of capital assets. Unless such a state is secured, what we shall at best keep on getting is a tax concession here and a tax concession there, but not substantive tax relief as will significantly step up capital formation.

This is all the more so in view of our ever-mounting expenditures on civil administration and defence. In Table 81 we can see that the ratio of the total tax revenues to the national income has risen from 7.8 in 1950-51 to 10.1 in 1960-61, to 14.2 in 1965-66. But Government's own contribution to the domestic rate of capital formation has been painfully small! Thus in 1965-66, the tax-revenues contributed 14.2 per cent to the national income but the rate of domestic capital formation was only 10.5 per cent. In other words, there are tremendous leakages, some inevitable like those on defence. Of the total tax-revenues raised during the Third Plan of Rs 11,120 crores, the Plan itself was able to utilise only Rs 2,410 crores that is barely 22 per cent.

Another critical problem that presents itself to the planners of developing countries is the extent of inequalities they should allow in the interest of higher capital formation. Now, the mere existence of large scale inequalities of income and wealth do not by themselves produce a high rate of capital formation any more than do low tax rates by themselves. If this were so, many of the countries of Asia and Latin America would, with their erstwhile low tax rates and high income inequalities, have become rich! The State as the motor force of economic development has to create the framework of political stability and the drive towards economic growth, and reasonable men will agree that the well-to-do minorities of the hitherto poor countries would have to shoulder a higher tax burden in the initial stages of economic growth.

But the rub comes in when equalitarian and non-economic considerations begin to dominate the fiscal system. As the great authority on economic growth, W. Arthur Lewis, so well puts it: the less developed countries have awakened into a century where everybody wishes to ride two horses simultaneously, the horse of economic equality, and the horse of economic development. The U.S.S.R. has found that these two horses will not go in the same direction, and has therefore abandoned one of them. Other less developed countries will have to make their own compromises.

This leads to one of the two things, or in some cases a little bit of both! It leads to large scale tax evasion or it leads to a severe drag on capital formation.

The choice is between remaining honest or remaining rich. Tax evasion, rightly to be condemned as an evil, becomes in some respects a social good, for it leads to investments which, were the existing high rates of taxation to be actually paid, would be unthinkable.

Thus, in India, there has over the years emerged a fiscal system which can boast of having the highest rates of personal taxation in the world, and the highest rates of estate duty in the world. No doubt, great care needs to be exercised in the international comparison of tax burdens—the definitions of the terms differ, the coverage differs and exceptions abound of all sorts. Nevertheless, taking these limitations into account, a number of studies have been carried out by objective bodies in India.

The Tata Quarterly study of corporate tax rates in January 1964 showed India to be the highest-taxed in the world, and this was substantiated by a full study made by the National Council of Applied Economic Research. This body demonstrated that the individual tax rates in India were at most levels of incomes among the highest in the world, if not the highest. Neither the objectivity nor the solidity of these studies have succeeded in making the slightest dent on governmental thinking. We are operating on one wave length, Government is apparently operating on another. The result is that we are out of tune with each other, and, in between, the investment market becomes more and more moribund with each passing year.

Government spokesman continue to argue with alarming simplicity and with even more alarming sincerity that taxation in India is still among the lowest in the world. The ratio of our total tax revenues to our national income is one of the lowest year in and year out, lower than that of nearly all the advanced countries of the world and it is lower than even the corresponding national tax rates of other comparable countries like Burma, Ceylon and Egypt. In theory, this argument is simple, in practice, it is simply devastating.

It fails to note, in the first instance, the elementary fact that increased incomes tend to bring about a more than proportionate increase in the taxable revenues of a country. As an economy advances, the elasticity of the tax response to national income tends, for various reasons, to be higher. For one thing, the economy being more organised becomes more responsive to tax collections: for another thing, the ratio of the income-tax paying population to the total population increases very appreciably. In America, the income-tax paying population is 45 per cent of the total: in India, it is barely half a per cent. Incidentally, our Draft Fourth Five Year Plan states that even without any additional taxation, the ratio of tax revenues to national income will rise during the Plan period from 14 to 15 per cent. The advanced countries certainly have a very much higher ratio of tax revenues to their national incomes, but this is by no means due to heavy tax rates.

If anything—and here we come to the second point—the higher ratio of tax revenues to national incomes may be well due to lower tax rates, as the recent example of Germany shows. The lower tax rates by stimulating savings

both at the personal and corporate levels create, with a certain time-lag, such a substantial expansion in national income as to reward Government with liberal increases in tax revenues. This incentive tax system which more than anything else has been the greatest achievement of Germany under Dr Erhard, had also inspired late President Kennedy to dynamise both the national income and the national tax revenues of the U.S.A. by lower tax rates. Significantly enough, the national tax revenue of Germany with lower rates of taxation is higher than that of Great Britain with higher rates of taxation.

It is true that this incentive technology in India will not work with so much success and swiftness as it would work in an advanced country if only because of the rigidities in our economy and in our planning: to mention this important limitation is not to take away the basic value of an incentive tax system in maximising tax revenues through lower tax rates. The non-monetised sector is notoriously larger in India and the tax revenues from agriculture conspicuously smaller than in nearly all other developing countries. No true measure of the tax-paying capacity can be complete without taking into account the huge doses of deficit financing. Deficit financing is not a source of capital formation: it is taxation by inflation.

The private sector should no doubt be grateful for the large-scale assistance, which is being put at its disposal. As the latest report of the Industrial Development Bank of India has noted, 'the total assistance provided by term-financing institutions represented about 13 per cent of the total estimated gross private sector investment in the Third Plan, while in the Second Plan period, it was only about 5 per cent of a considerably smaller amount of investment'.

If this public sector assistance was in addition to that of private individual investment, it would have been economically most welcome. Politically, it would of course raise the question of allowing the public sector the commanding heights not only of the whole economy but even of the principal private limited companies. But at least economically, it would be a great help. As it is, however, this public sector investment is not in addition to, but in substitution of private individual investment. Some idea of the costs of this pump-priming to the Government can be seen from the fact that in the last 3 years, the additional corporate tax revenues raised by the Government relative to 1962-63 was Rs 254.14 crores, but public sector funds disbursed to private sector industry were more at Rs 263 crores of which Rs 202 crores was in the nature of loans. How long this process of first milching the cow and then giving it blood-transfusion can and should go on is debatable.

Under these circumstances, it is difficult to see how the private sector will be able, under its own steam, to achieve the targets of capital formation set for it in the Fourth Plan. The alarming thing is that there is no hope for relief for years to come, and the huge tax burdens imposed in and since 1963 in the name of defence, far from being given the nature of an emergency-levy, are being quietly treated in the Fourth Plan as part of routine taxation. There is not even the slightest recognition in the Draft Outline of the Fourth Plan of

the unprecedented depression in the capital market. In fact, with sardonic humour, the private sector is invited to exploit it more intensively. But as Mr J. R. D. Tata has said, 'how can you exploit a corpse, intensively or otherwise?'

It is over 13 years ago that the Taxation Enquiry Commission went at length into the fiscal problems of India as they then were and as they should be in an economy committed both to rapid economic growth and to social justice. Since then, the problems on the entire fiscal front have grown so enormously in magnitude and in complexity that far from there being a break-through in the fiscal field, there has been a virtual breakdown. A new Fiscal Commission now needs to be appointed, not least of its achievements would be to establish through an objective study a basis of understanding between the private sector and the Government of their mutual difficulties and mutual aspirations.

CENTRAL BUDGET: 1967-68

CENTRAL AID to the States for their annual plans for 1967-68 was increased by Rs 55 crores. The Central Budget presented to Parliament on 25.5.67 provides Rs 590 crores of plan assistance to the States against Rs 535 crores envisaged in the Interim Budget. The Central plan outlay is proposed to be increased from Rs 1,176 crores in the Interim Budget to Rs 1,221 crores—an increase of Rs 45 crores. The total provision for the current year's plan in the budget thus comes to Rs 1,811 crores against Rs 1,711 crores in the Interim Budget. The Budget also provides an additional Rs 38 crores for the scarcity-affected areas and Rs 5 crores for land mortgage banks. Total assistance to the States is thus proposed to be increased by Rs 98 crores. Of the Rs 49 crores provided additionally for the Central plan, Rs 14 crores are for transport, mainly roads, ports and shipping, Rs 6 crores for oil exploration and refining, Rs 3 crores each for atomic energy, posts and telegraphs and family planning, Rs 5 crores for the Bokaro steel plant and Rs 4 crores for Union territories. The remaining Rs 11 crores represent additional provision for education, heavy industries, khadi and village industries, chemicals and tourism.

Presenting the General Budget for 1967-68, Deputy Prime Minister and Finance Minister Morarji Desai, reviewed the budget estimates in the light of the Interim Budget presented in March. He said the Centre's budgetary deficit for 1966-67, since the Interim Budget, had turned out to be somewhat smaller than anticipated, namely, of the order of Rs 313 crores instead of Rs 350 crores. The improvement of Rs 37 crores was the result of a number of factors. Receipts from tax revenues had been of about the same order as estimated in the revised estimates, in fact a shade better. External assistance, however, had shown a significant shortfall. But this had been made up by savings under various items of expenditure. Foodgrain transactions had been better than estimated. This accounted to a large extent for the reduction in the anticipated deficit. About the budget estimates for the current year, Mr Desai

anticipated some shortfall in the revenue from the excise duties on sugar on account of lower production. But this would be made up under other receipts and had, therefore, not made any change in the estimate of revenue receipts.

As regards foreign aid, Mr Desai recalled that he had provided for the utilisation of Rs 835 crores or $1,115 million this year. Since then, the Aid-India Consortium had met in Paris. Further discussions had taken place, including those with the World Bank President. In the Interim Budget, he had taken credit for some disbursement from the $900 million of non-project assistance which was expected to be committed this year. From the recent discussions, it would appear that the pace of disbursement from the new non-project assistance might be quicker. But experience during 1966-67 should warn us against too optimistic a view of aid disbursements. Taking everything into account, he had increased the earlier estimate of foreign aid utilisation by Rs 30 crores. The change made by the railways in fares and freights would improve the position of their funds which were deposited with the general revenues by Rs 7 crores.

Mr Desai disclosed that defence expenditure was proposed to be reduced by Rs 6 crores. In the Interim Budget this expenditure was only 3 per cent higher than in 1966-67 in money terms. The cost of maintaining defence services and supplies had gone up over the past 12 months due to internal price rise and the change in the exchange rate. A substantial reduction in the interim provision for defence was, therefore, not possible. The Government was prepared to explore all possible avenues of reducing the tension on our borders and of improving our relations with our neighbours, China and Pakistan. At the same time, as long as these efforts did not meet with a genuine response, we could not allow our search for economies to come in the way of the needs of national security. Consistent with this, it would be our endeavour to seek economies as in other fields.

Since the Interim Budget was presented, Mr Desai said, the Government had reduced significantly the fertiliser subsidies, particularly in the context of the higher procurement prices which were being offered for foodgrains. This, together with reduction in the purchase price of fertilisers, was expected to benefit the current budget to the extent of Rs 51 crores in comparison with the Interim Budget. Further, a saving of Rs 7 crores would be available in respect of the subsidy on sugar exports which were likely to go down in view of the fall in output.

Mr Desai outlined 5 areas of immediate concern in the economic field:

1. The serious situation created by the drought concerning food supplies in general and the well-being of the people in the scarcity areas in particular.
2. The steady rise in the prices, which had been with us now for more than 3 years, had to be arrested in the shortest possible time.
3. There was need to revive industrial activity, particularly in a number of capital goods industries which were suffering from lack of demand.

4. The recent adverse trends in exports had to be reversed as soon as possible.
5. These immediate problems must be tackled in a manner which gave us confidence that we could look forward to a long period of satisfactory growth with reasonable price stability and increasing self-reliance and without sacrificing the claims of national security and social justice.

Mr Desai reviewed the position in the various fields of economic activity. The average production of foodgrains during the last 2 seasons had been 17 per cent below the level reached in 1964-65. This sharp decline had meant loss of income for farmers in many parts. Our first concern had been to prevent undue hardship to the vulnerable sections of the community by provision of work and incomes and by substantial distribution of foodgrains through public channels.

No efforts or money would be spared to ensure that relief measures and public distribution of foodgrains would be continued and extended during the lean months ahead. A substantial additional provision of Rs 38 crores in the Central Budget was made for supporting relief measures and assisting the scarcity-affected States. This would be in addition to the provision of Rs 37 crores already made in the Interim Budget. During the first five months of this year, 3.05 million tons of foodgrains had been imported. Another 2.6 million tons were expected to arrive after May. Subject to matching, the U.S. had indicated its willingness to provide another 3 million tons. Of this 1.5 million tons were expected to be authorised shortly. To the extent necessary, arrangements for further imports from our own resources would be made to prevent a breakdown of the public distribution system. The drought had affected severely the supply position in regard to a number of essential products apart from food such as raw jute, cotton, oilseeds and sugar. To encourage domestic production, the minimum support price for raw jute had been raised from Rs 35 per maund to Rs 40. In respect of sugar, with a sharp fall in output, there was no escape from a reduction in internal consumption. The present controls on price and distribution would have to be maintained. Steps would be taken to increase the output of sugarcane in the next season.

A situation in which prices had risen by 46 per cent in 3 years created apprehensions about further inflation. This depressed savings and encouraged unproductive investment. Curbs on such investments have become more important than ever. The psychology of inflation had to be ended. It was proposed to limit the outlays of the Centre within the resources which could be mobilised in non-inflationary measures. Unauthorised overdrafts from the Reserve Bank by State Governments must be avoided. Taking into account both of plan and non-plan requirements, the assistance now being proposed for the States was Rs 98 crores more than in the Interim Budget. This did not

meet all needs of the State Governments and others, but if the Centre was to help the States more in one way, it would be able to help them less in other ways.

In the present circumstances, it was desirable that the Government should not appropriate any part of the permissible limit of monetary expansion. This would allow a larger expansion of bank credit to agriculture and industry to facilitate higher production. Some restraint on private credit, particularly for speculative and unproductive purposes, would be necessary. There had been a modest revival in the growth of industrial output since October. Nevertheless, it had not been buoyant and several industries were actually experiencing a decline in production and an increase in excess capacity. For the priority industries, the liberal import policy was being continued. For other industries producing essential consumer goods also, the import requirements would be met on a more liberal basis. It was proposed to provide additional sums, beyond that provided in the Interim Budget, for the developmental activities. The performance of exports in 1966-67 had been particularly disappointing. Of late, there had been signs of a modest recovery in export earnings. With the revival of agriculture and industry and continued efforts to explore foreign markets, some further improvement could be expected. Nevertheless, there had to be a restraint on domestic demand for products which could be increasingly exported. Equally, export duties had to be revised if necessary. A major break-through in export earnings could be expected only on the basis of modernisation and rationalisation of our established industries and a judicious expansion of capacity.

Special arrangements would have to be made to ensure that industries and activities with an export potential were given the highest priority in the allocation of scarce resources unless established industries became progressively more efficient. A competitive environment was as vital for the healthy promotion of import substitution as it was for the sound promotion of exports. That was why selective quantitative import restrictions had been relaxed. This policy would be continued and strengthened.

The Government's approach had been pragmatic. The Government had not hesitated to relax them or intensify them in the light of changing circumstances. Where controls were necessary, they would be administered in a way which minimised delays and inconvenience and ensured equal treatment. The social objectives of controls such as maintaining a measure of equality between people with different initial advantages and prevention of undue concentration of wealth and economic power could be achieved by other means which might have less inhibiting effect on productive efficiency. That was why the Government for some time had been following a selective policy of relaxing controls. The Deputy Prime Minister, reviewing long-term considerations, declared that the Government was fully committed to the achievement of a socialist society within the framework of an actively functioning democracy. This was in keeping with the Directive Principles contained in the Constitution. Much

had already been achieved. Table 84 contains figures of the Second Budget 1967-68 of the Central Government.

TABLE 84

CENTRAL BUDGET AT A GLANCE
FOR 1967-68

(Crores of Rs)

Item	*Receipts*	*Expenditure*
Revenue Account	2,999 70	2 686.05
Capital Account	1,751.78	2,064.58
Total	4,751.48	4,750.63
Surplus	...	0.85

GOVERNMENT OF INDIA DEBTS: 1950-51 TO 1966-67

INDIA'S TOTAL public debt increased five-fold since the inception of planning in 1951. The total public debt at the end of the 1966-67 financial year was Rs 10,838 crores against Rs 2,054 crores at the end of 1950-51. Till the end of the Second Plan, internal debt was the predominant constituent of the total public debt, forming about 84 per cent. The internal debt is composed of current loans, treasury bills, special floating loans, prize bonds, loans in course of repayment and treasury deposit receipts and other floating loans. But from the beginning of the Third Plan, the proportion of external debt steadily rose and by the end of March last, external loans accounted for about 43 per cent of the total public debt. This year, the total public debt is expected to go up to Rs 11,722 crores, an increase of Rs 884 crores over last year. Of this rise, internal debt will account for Rs 95 crores, while outstanding external debt is expected to total Rs 5,413 crores, Rs 789 crores more than the previous year.

GOVERNMENT OF INDIA: ASSETS AND LIABILITIES

THE VALUE of the capital assets of the Government of India reached a total of Rs 14,025 crores at the end of March 1967; it is expected to increase to Rs 15,493 crores by the end of March, 1968. The corresponding liabilities of the Central Government are placed at Rs 14,355 crores and Rs 15,608 crores respectively. The fact that the liabilities of the Central Government have roughly been matched by the assets means that the funds borrowed have largely been utilised for the creation of assets, most of them tangible. This important fact is missed many a time in public discussion when concern is expressed over

the mounting liabilities of the Government. The position of liabilities and assets as at the beginning of the First Five Year Plan and that at the end of the current (1967-68) and the previous (1966-67) years is given below:

TABLE 85

ASSETS AND LIABILITIES: GOVERNMENT OF INDIA: 1950-51 TO 1967-68

(Rs crores)

As at the end of	*Liabilities*	*Assets*
1950-51	2,865	1,709
1955-56	3,511	2,809 (64.7)
1960-61	6,544	6,125 (118.1)
1965-66	11,329	11,964 (95.3)
1966-67 (RE)	14,355	14,025 (17.2)
1967-68 (BE)	15,608	15,493 (10.5)

Figures in brackets denote percentage increase in assets over the previous period.

The assets (valued at historical cost) of the Central Government increased nine-fold during the years under review, compare to 1950-51. The tempo of assets formation was the highest during the Second Five Year Plan during which the value of assets increased by 118 per cent. The Third Plan witnessed a slowing down of the rate to about 95 per cent. The (compound) annual rate of increase of assets formation seems to show a falling trend as can be seen from the following data (Table 86):

TABLE 86

COMPOUND AVERAGE ANNUAL INCREASE IN CENTRAL ASSETS

During	*Per cent*
First Plan	10.5
Second Plan	16.9
Third Plan	14.3
1966-67 (RE)	17.2
1967-68 (BE)	10.5

The projected rate of increase in 1967-68 would be as low as the compound average annual rate of increase during the First Plan.

The assets are broadly classified into (1) capital outlay, and (2) advance of loans. Of the total outstanding assets at the end of March 1967, 54 per cent

were in the form of tangible assets, built up either by the Government itself or by autonomous bodies in the public sector, and 46 per cent in the form of loans advanced to State Governments and other parties, mainly Government corporations and companies. Loans are advanced to State Governments for meeting the expenditure on plan schemes, natural calamities, etc., and for tiding over temporary ways and means difficulties. A major portion of the loan-assistance to States is obviously for development. Thus, quite a large portion of these loans is utilised for building up tangible assets by States or their agencies and by the various state-owned corporations. Of the total capital outlay of Rs 7,616 crores (March 1967), about 36 per cent was in the form of investments in autonomous corporations and companies, 33 per cent in defence services and the remaining 31 per cent in Posts and Telegraphs, public works, atomic energy and other economic and industrial development schemes. The liabilities of the Central Government represent that part of capital receipts which the Government is liable to repay; thus, while liabilities include public debt and deposits, they exclude the capitalised revenue surpluses. To the extent tangible and intangible assets are created, either by the Government or by the Government-aided agencies, these liabilities are not a burden to the nation. Nearly 75 per cent of the total outstanding liabilities at the end of 1966-67 was due to direct borrowings—internal or external; the remaining 25 per cent constitutes funds and deposits. There also took place an enormous increase in the external debt, which increased from Rs 32 crores at the end of 1950-51 to Rs 5,413 crores at the end of 1967-68. The internal debt increased about 3 times during the same period from Rs 2,022 crores to Rs 6,313 crores. The rate of increase in the net credits on account of small savings has been successively declining: the compound average annual percentage increase in the net collections of small savings, which was 11.3, 11.0 and 9.7 during the First, Second and Third Plan periods respectively, dropped down to 8.1 per cent during 1966-67 and is expected to decline further to 7.8 per cent in 1967-68. Tables 87 and 88 contain details of the Assets and Liabilities of the Government of India, 1950-51 to 1967-68.

TABLE 87

ASSETS OF THE CENTRAL GOVERNMENT: 1950-51 TO 1967-68—INDIA

(Rs crores)

Items	*As at the end of*					
	1950–51	*1955–56*	*1960–61*	*1965-66*	*1966–67 (RE)*	*1967–68 (BE)*
A. Capital Outlay:						
I. Departmental Undertakings:						
1. Railways	818	960	1,513	2,672	2,847	3,009
2. Post and Telegraphs	50	89	140	265	293	321
3. Atomic Energy	...	1	15	69	125	160
4. Others	27	14	14	24	29	42
Total I. Departmental Undertakings	895	1,064	1,682	3,030	3,294	3,532

(Continued on page 292)

TABLE 87—*Contd.*

ASSETS OF THE CENTRAL GOVERNMENT: 1950-51 TO 1967-68—INDIA

(Rs crores)

Items	As at the end of 1950-51	1955-56	1960-61	1965-66	1966-67 (RE)	1967-68 (BE)
II. Investments in (*a*)						
1. Government Companies and Corporations						
(*a*) Hindustan Steel	...	...	300	528	528	533
(*b*) Bokaro Steel	...	...	...	20	38	108
(*c*) Oil and Natural Gas Commission	...	...	17	106	113	114
(*d*) National Coal Development Corporation	...	...	27	61	75	86
(*e*) Neyveli Lignite Corporation	...	...	48	79	79	79
(*f*) Heavy Engineering Corporation, Ranchi	...	...	7	89	86	86
(*g*) Indian Oil Corporation	...	...	7	65	70	70
(*h*) Bharat Electronics	...	...	...	47	62	65
(*i*) Fertilizer Corporation	...	17	40	52	58	65
(*j*) Damodar Valley Corporation	5	23	37	58	60	61
(*k*) Heavy Electricals	...	...	23	50	50	50
(*l*) Air Corporations	...	12	35	49	49	49
(*m*) National Mineral Development Corporation	...	...	2	10	16	25
(*n*) Shipping Corporation	2	5	21	23	23	23
(*o*) Indian Drugs and Pharmaceuticals	...	...	...	22	22	22
(*p*) Food Corporation of India	...	...	...	9	14	21
(*q*) Mining and Allied Machinery Corporation	...	...	...	1	20	20
(*r*) Others	3	13	28	75	98	144
Total 1. Government Companies and Corporations	10	70	592	1,344	1,461	1,621
2. Financial Institutions:						
(*a*) International Monetary Fund	201	201	296	353	527	527
(*b*) International Bank for Reconstruction and Development	37	37	37	37	57	57
(*c*) International Development Association	...	...	4	19	29	29
(*d*) Others	12	12	21	15	22	29
Total 2. Financial Institutions	250	250	358	424	635	642

(*Continued on page 293*)

TABLE 87—*Contd.*

ASSETS OF THE CENTRAL GOVERNMENT: 1950-51 TO 1967-68—INDIA

(Rs crores)

Items	*As at the end of*					
	1950-51	*1955-56*	*1960-61*	*1965-66*	*1966-67 (RE)*	*1967-68 (BE)*
3. Other Companies, Corporations, etc.						
(*a*) Oil India Ltd.	...	...	8	27	27	27
(*b*) Others	...	1	2	3	4	6
Total 3. Other companies, etc.	...	1	10	30	31	33
Total II. Investments	260	321	960	1,798	2,127	2,296
III. Other Capital Outlay						
1. Defence Service	261	314	454	874	989	1,113
2. Public Works (including Roads)	21	83	180	425	477	519
3. Delhi Capital Outlay	25	36	62	107	114	122
4. Currency and Coinage	...	...	9	35	45	57
5. Aviation	7	14	29	45	50	55
6. Ports	5	14	25	43	49	54
7. Industrial and Economic Development schemes	3	5	21	39	46	46
8. Agricultural Development	...	1	18	32	33	40
9. Dandakaranya Development (*b*)	...	...	27	27	30	34
10. Government Trading Schemes (*c*)	7	6	122	70	281	419
11. Others	4	8	1	60	81	109
Total III. Other Capital Outlay	333	481	948	1,757	2,195	2,568
Total A: Capital Outlay	1,488	1,866	3,590	6,585	7,616	8,396
B. Loans advanced:						
1. To States and Union Territories	196	833	1,910	4,010	4,657	5,053
2. To Foreign Governments	...	...	29	28	41	55
3. To other parties (*d*)	25	110	596	1,341	1,711	1,989
Total B: Loans advanced	221	943	2,535	5,379	6,409	7,097
Total Assets (A + B)	1,709	2,809	6,125	11,964	14,025	15,493

Source

Explanatory Memorandum on the Budget of the Central Government for 1967-68, Statement X, pp. 92-94.

Method

Only individual capital works, investments or advances of Rs 20 crores have been grouped together as 'others'.

Concepts

(*a*) Investments in autonomous corporations, companies, financial institutions, etc.

(*b*) This head accommodates capital expenditure on the development of Dandakaranya on the borders of Andhra Pradesh, Orissa and Madhya Pradesh for the rehabilitation of displaced persons from East Pakistan as well as for the welfare of the local population particularly tribes.

(*c*) This head accommodates the net expenditure in connection with the various schemes of Government trading, mainly purchase of foodgrains and fertilizers.

(*d*) Mainly loans to Government companies and corporations and major financial institutions. It also includes loans to port trusts, municipalities, government servants, etc. The original source does not give details for this item.

TABLE 88

LIABILITIES OF THE CENTRAL GOVERNMENT: 1950-51 to 1967-68—INDIA

(Rs crores)

Items	*Outstanding as at the end of*			*1965-66*	*1966-67 (RE)*	*1967-68 (BE)*
	1950-51	*1955-56*	*1960-61*			
I. *Public Debt*						
1. Internal (*a*)	2,032	2,329	3,978	5,419	6,218	6,313
2. External (*b*)	32	114	761	2,590	4,623	5,413
Total I	2,064	2,443	4,739	8,009	10,841	11,726
II. Small Savings Schemes (*c*)	327	575	970	1,538	1,663	1,794
III. *Funds and Deposits*						
1. Provident Funds (*d*)	95	266	289	527	578	633
2. PL 480 Deposits (*e*)	...	...	240	562	535	670
3. Compulsory and Annuity Deposits	...	...	...	108	129	150
4. Other Reserve Funds and Deposits (*f*)	379	227	306	585	609	635
Total III	474	493	835	1,782	1,851	2,088
Total Liabilities	2,865	3,511	6,544	11,329	14,355	15,608

Source

Explanatory Memorandum on the Budget of the Central Government for 1967-68.

Method

The liabilities do not take into account the amount of Rs 300 crores due from Pakistan on account of her share of pre-partition debt for well-known reasons. The Explanatory Memorandum shows the amount as a reduction of liabilities.

Concepts

(*a*) Internal debt comprises the 'Permanent Debt' and the 'Floating Debt'. While 'Permanent Debt' covers loans raised in the open market including Prize Bonds and 15-year Annuity Certificates, 'Floating Debt' represents borrowings of a temporary nature and includes *ad hoc* treasury bills issued to the Reserve Bank, State Governments, State Bank of India and other parties; other treasury bills issued to the public and non-negotiable, non-interest bearing securities issued to the international organisation like the IBRD, IMF, IDA and ADB (towards payment of India's subscription to the IMF ($750 million) and that of IBRD ($800 million)—these payments were made partly in U.S. dollars and partly in the form of non-negotiable, non-interest bearing rupee securities): consequent on the devaluation of the rupee, the subscription to these organisations made in the form of rupee securities had to be made up at the post-devaluation rate.

(*b*) Credits for various loans raised from foreign countries and international organisations are accommodated under this head.

(*c*) Various Small Savings Schemes, for e.g., Post Office Savings Bank Deposits, Cumulative Time Deposits, National Savings Certificates, National Defence Certificates, etc. The figures represent net credits.

(*d*) Represent the net excess of credits over debits.

(*e*) The rupee equivalent of the dollar cost of the surplus agricultural commodities imported under P.L. 480 of U.S.A. is deposited with the U.S. Government Title Account in India. A major portion of the rupee deposits is subsequently made available to the Government of India as loans or grants for expenditure on mutually agreed development projects and the balance is retained by the U.S. Government partly for its own use and partly under the Cooley Amendment to P.L. 480 for giving loans to U.S. firms or their affiliates for investment in India. Since 12th May, 1966, the counterpart funds are deposited directly with the Reserve Bank of India who invest them in special non-negotiable securities of the Government of India.

(*f*) Accommodates depreciation and other reserve funds of the Railways and Posts and Telegraphs Department and other *ad hoc* funds.

DEFICIT FINANCE IN 1966-67: CONTRIBUTORY FACTORS

WITH A SUBSTANTIAL increase in its liabilities and commitments, the budgetary balance of the Central Government has been upset and the Government has already resorted to deficit financing on a much larger scale than anticipated. Unofficial estimates place the deficit financing at the Centre at over Rs 300 crores and even approaching Rs 400 crores, but authoritative sources regard these estimates as exaggerated and, while conceding that the budget is not in balance at this stage, they are still pinning hope on the possibility of a spectacular improvement by the year-end. A major part of the present deficit is accounted for by the payment of Rs 95 crores to the Reserve Bank by the Centre to clear overdrafts of State Governments at the end of June, 1966. Part of it is expected to be repaid to the centre by the States in the course of the year. Additionally, with more foreign aid materialising in the second half of the year, and more food imports under P.L. 480, the budgetary resources of the Government will correspondingly increase. The augmentation of the budgetary resources will be through the non-project aid of $900 million pledged by the Consortium. Not all of it is, of course, expected to be drawn upon in the current year, but the improvement in the resources position will depend on the extent to which the non-project aid is provided and utilised. Project aid makes no difference to budgetary accounting.

The deficit in the original budget was Rs 32 crores and it was expected to increase by Rs 40 crores on account of adjustments made after devaluation. There would be a loss of Rs 80 crores on account of the increase in the burden of servicing the foreign debt and in the cost of Government imports. But the levy of export duties and adjustments of import duties would bring about Rs 100 crores. The burden of export subsidy will decline, but the food subsidy will cost Rs 160 crores. On top of the increase in the deficit as a result of devaluation have come some major liabilities. The increase in dearness allowance of Central Government employees in terms of the Gajendragadkar Commission's recommendations will be about Rs 31 crores. At the instance of the former Finance Minister, the Government had accepted the policy of compensating Central employees for an increase in prices through various amenities and concessions. The Government was not in favour of neutralising the increase in cost of living by an increase in D.A. to any considerable extent. But because of the relentless pressure of prices, the Government has now retreated from this policy. Drought relief may cost Rs 30 crores and a big step-up in defence expenditure is also expected. The revenue from direct taxes has been larger than last year's. Income-tax realisation will improve much more in the last quarter of the year. With the liberalisation of imports, revenue from import duties is expected to pick up, while revenue from export duties on petroleum products to keep prices at the pre-devaluation levels will cost the Government Rs 20 crores, but revenue from this source is expected to increase as the Cochin and Koyali refineries have been commissioned. Whether

industrial production will pick up sufficiently in the next few months as a result of import liberalisation remains a question-mark. Perhaps hoping for an increase in revenues as a result of a spurt in industrial production in the current year would be illusory.

With severe drought in Bihar and U.P. and some parts of Madhya Pradesh and Gujarat, hopes of an improvement in agricultural production dwindled. The prospects of an overall improvement in the performance of the economy in the current year are, by no means, bright and the Central Government cannot bank on the improvement of its resources through an improvement in the economy. Many of the State Governments had to increase dearness allowances of their employees in recent months, but, technically, the budgetary position of the States which had run overdrafts with the Reserve Bank, has improved with the Centre baling them out. Some of the major States such as Madhya Pradesh, U.P., Maharashtra and Gujarat have improved their resources position through various means. The State Bank will advance credit to the State Governments for procurement of food grains. In 1965-66, the purchases by the State Governments totalled Rs 85 crores and they had to arrange funds from their own resources. This was one of the reasons for the large deficit of Rs 385 crores in the States in 1965-66. The Government is, of course, at this stage not quite clear about the implications of the various factors impinging on the budget. But it feels that the fears of mischief from deficit financing are underestimated and that at the end of the year, the situation should turn out to be much worse than forecast.

MORATORIUM FOR STATES, PAY COMMISSIONS AND DEFICIT FINANCING IN FOURTH PLAN

THE FINANCE MINISTER told the Lok Sabha on 8-6-1967 that if he agreed to a moratorium on the interest or principal which some States had to pay to the Centre this year, he would not be able to help them financially as much as he had promised to do. He had taken into account in the Central Budget Rs 165 crores by way of interest and loans to be paid by the States. If he were to agree to a postponement of repayment of this amount by the States, he would have to reduce the Central Budget to that extent and this would not be in the interests of the States themselves. The Chief Minister of Madras had asked, when he met him recently, for a moratorium on the interest which that state had to pay this year to the Centre. The Minister of State for Finance informed the House that certain States like Punjab, Bengal, Bihar and Madras had asked for postponement of the repayment and ultimately Bihar agreed to repay the loan. He said that on March 31, 1967, the States had to repay loans totalling Rs 4,600 crores to the Centre.

One is reminded of French history: 'The Bourbons learnt nothing, forgot nothing'. Between the States wanting a moratorium and appointing pay commissions and wage boards, for scaling up Salaries and Dearness Allowances, it

is inevitable that deficit financing should loom large in the next four years of the Fourth Plan period. It is rather strange that even the Gajendragadkar Commission helplessly declared that no other method was conceivable for meeting the hardships of Government servants than automatically raising allowances according to the rise of points in the cost of living index. If anything, deficit financing is bound to be in larger amounts 1967-68 onwards than in 1966-67.

DEFICIT FINANCING AND INFLATION: 1967-68

SOME MONTHS AGO, the first faint hopes started rising that India might, at last, be able to check the sharp increase in prices which has played havoc with her economy in recent years. The hopes were based on two main factors. The first was that the summer monsoon had been satisfactory so that a large improvement in agricultural production was expected. The second was that the Government had promised to put a stop to deficit financing: although the promise had been made before, particularly by the Minister of Finance, it was thought that for once it was seriously meant. Barely 3 months have gone by, however, and hopes of checking inflation have already started fading. The monsoon has fulfilled earlier expectations: foodgrain production is expected to rise to an all-time high of 95 million tons during the current year, from the alarming level of 76 m. tons in 1966-67. With the probable exception of sugarcane, a substantial increase is expected in other crops too. But a number of other factors have come into play which threaten to neutralise the anti-inflationary effort that was to coincide with the arrival of the bumper harvest.

The most important of these factors is that, partly because of political cowardice at the Centre, and partly because of political instability in the States, the earlier promises about avoiding deficit financing have begun to be thrown to the winds. In other words, the Budgets of the Central and State Governments are already in serious disarray. Practically all of them are heading for substantial deficits by the end of the current financial year—in March, 1968—although, in a sustained effort to hide the act, none of the Governments is prepared to say how big its deficit is likely to be. The Central Government, on whom the responsibility for checking inflationary financing primarily rests, presented a barely balanced Budget towards the end of May. Less than two months later, however, it had to amend the Budget proposals fairly drastically—not the least of the reasons being that they were based on miscalculations which would have put a stop to all expansion in two of India's most promising industries (aluminium and synthetic fibres).

Thus, the Budget, after it emerged from the debate in Parliament, was already a deficit one. And the deficit has subsequently increased as a result of four factors. First, Central Government employees have been given large increases in dearness allowances in accordance with the Gajendragadkar Commission's recommendations. Secondly, famine and flood relief expenditure has risen. Thirdly, the profits of public sector undertakings, hit by recession,

inefficiency and labour troubles, have declined. Lastly, tax revenues are running far behind the Budget estimates, because of the general stagnation in economic activity.

If the Centre's budgetary position is bad, that of the State Governments is worse. The budgets for the current year presented by States showed a deficit, before new taxation of Rs 130 crores was taken up. Some of the States proposed taxes which, taken together, were expected to yield Rs 55 crores. But a disturbingly large number of States did not bother to balance their budgets at all, either by increasing taxation or by reducing expenditure. Notable among the latter was West Bengal, which showed a huge overall deficit of Rs 36 crores and then cheerfully announced that it would cover the deficit by demanding more financial assistance from the Centre (which assistance was promptly and firmly refused).

The result is that a number of State Governments are jogging along without anybody quite knowing where their money is coming from. Disturbing rumours are circulating to the effect that their coffers, now almost empty, would have been totally exhausted but for the fact that they have stopped paying all except the most unavoidable bills, for example, those relating to staff salaries. In some States, notably West Bengal, political instability is creating an incentive for budgetary irresponsibility: Finance Ministers, unsure of how long they will stay in power, have chosen to leave unpopular taxation measures to possible successors of tomorrow or the day after.

In the process, a dark and rather disreputable veil of secrecy has fallen over the budgetary activities of India's Central and State Governments. A variety of guesses have been offered about how big their deficits during the current financial year, taken as a whole, are likely to be. The guesses are not, by their very nature, precise or wholly reliable. But those based mainly on information emanating from Government sources point to the prospect that the deficits will be large—far larger than the Indian economy can sustain after the inflationary chaos of recent years. In this context, the Central Government alone, having budgeted for a relatively modest deficit of Rs 32 crores in 1966-67, actually ended the year with a deficit of Rs 313 crores. And it did so without issuing the faintest whisper meanwhile of what it was up to. Budgetary irresponsibility apart, there are other signs that a decline in food prices, which would be the precondition for any degree of general price stability, is likely to be neither substantial nor prolonged. Firstly, despite bumper crops, food supplies will not be all too large, if due allowance is made for the probably sharp decline in imports and for the needs of stock replenishment after a year of near famine conditions during which stocks have been almost completely exhausted. Secondly, the procurement prices for new crop grain have just been fixed by the Government at a level high enough to prevent open market prices from falling appreciably. Thirdly, the Central Government is thinking of strengthening its budgetary position by reducing or abolishing food subsidies—knowing

full well that the abolition itself would help sustain, if not actually increase, grain prices.

The chances at the moment, therefore, are that with luck, food prices and prices in general may ease a little over the next five or six months, as the weight of the bumper grain harvests is felt in the markets. But, thereafter, the basic inadequacy of grain supplies, coupled with the budgetary recklessness of recent months, could once again strengthen the dangerous inflationary pressures seen in the economy in recent years. After a price increase of 32.5 points over the past year and of 95 points over the past 14 years, the portents are not encouraging.

The gap in the current Central Budget is likely to exceed Rs 400 crores according to the latest official estimates. The entire gap may be bridged through deficit financing. Deficit financing, which was once criticised for its adverse effects on the general price level and development next year, especially because the scope for additional taxation is limited. The shift in the Centre's approach to deficit financing follows the recent upsurge in agricultural production and the consequent falling trend in prices. It is also guided by the pressing needs of planned development. According to the Planning Commission, both deficit financing and a stiff dose of additional taxation would be needed to meet the requirements of the next year's plan. The additional resources needed through these two measures are estimated at about Rs 500 crores. However, while discounting the possibilities of this order, Finance Ministry circles do not rule out efforts being made on these lines. One of the major considerations for stepping up investment in the coming year is the fear of increased unemployment for want of fresh avenues. The rise in population is adding every year a sizeable number in the country's total labour force.

As regards the impact of impending deficit financing on prices, some official experts feel that the situation will remain within control with the anticipated increase in agricultural and industrial production next year. The buffer stock of three to four million tons of grain, which the Centre is now certain to be able to build by the end of 1968, is expected to keep grain prices stable in the lean season. Above all, it is pointed out that the rise in prices in India is linked more with the vast unsatisfied demand for essential consumer goods rather than the incomes of the people. This was amply proved in recent months when prices continued to rise despite industrial recession and agricultural stagnation.

FARM-INDUSTRY RATIO AND INFLATION

An across-the-board cut of Rs 300 crores in indirect taxes could stimulate industrial output by about 10 per cent and also reduce prices by about 5 per cent, according to the Economic and Scientific Research Foundation of the Federation of Indian Chambers of Commerce and Industry. The Foundation commends a cut in tax to this extent because in its view, no development investment by the Government is called for until the inflationary 'heat' is removed. In a survey of the Indian economy in 1967-68, the Foundation emphasises

the close correlation between the industry-agriculture growth ratio and the price index and says, above a critical limit, all non-agricultural investment is inflationary.

At this stage, it considers that any further investment in industry, not directly linked with farm output, will be inflationary. According to the study the current inflationary situation and the consequent stagnation in the Indian economy are only partly due to the droughts and are mainly a result of the continuing and persisting divergence between the growths in agriculture and the rest of the economy. A developing economy with an overwhelmingly large and weak agricultural sector is subject to imbalance whenever the ratio of industrial growth to agricultural growth approaches a critical limit of around two. That is, whenever industry is pushed ahead at a rate twice that of agriculture, the economy is put out of balance and price level rises rapidly.

During the First Plan, when the ratio of industrial to agricultural growth was only 1.25, the wholesale price index actually fell on an average by 1.8 per cent annually. During the Second Plan, the ratio went up to 1.7 and prices began rising at a rate of 3.5 per cent annually. During the Third Plan, the rate of industrial output was 6.1 times the rate of growth in agriculture, and this was accompanied by a price rise of nearly nine per cent annually. These figures, according to the Foundation, indicate that beyond a certain limit, all non-agricultural investment is inflationary.

In fact, all our plans have a built-in inflationary potential because of the statistical misconception that the drag resulting from a slow-moving farm sector can be counteracted by pushing ahead with industrial development. It is this misconceived planning strategy, rather than the drought, which is at the root of our present difficulties, although the droughts are also a contributing factor. The study says that the present recession in the industrial sector is a part of the self-adjusting process by which the supply-demand balance in the economy is being restored, since, if agriculture is not looking up, the industrial sector is automatically slowed down to bring it nearer the critical limit. Any further investment in industry at this stage, not directly linked with farm output, will be inflationary.

FEDERAL FINANCE AFTER THE FOURTH GENERAL ELECTIONS

Why the Congress suffered losses on such a scale in the general elections will be debated for a long time, both in the party and in the country. From the first inquests, it seems that no uniform set of causes accounted for the reverses in different States and the combination of factors sometimes differed from constituency to constituency in the same State. But it is clear that, to the extent that any one factor could be considered common, it was economic.

High prices and shortages of foodgrains and other articles, against which the electorate reacted everywhere generally, did not come out of nothing. They were the result of economic policies, both general and specific, followed

over a period of time—in fact, a long period of time. The framework of these policies was laid down by the party from time to time. Under the system, the Government was guided by the ideas of the party, and to distinguish between the two in locating the causes of electoral failure is to make a distinction without a difference, at least in so far as economic causes were concerned. Furthermore in the past ten years, Government's economic policies, both at the Centre and in the States, were governed almost entirely by the requirements of the five-year plans. The reign of the same party throughout the country, and the dominance of its ideas on the Planning Commission itself, promoted and sustained a close integration of the Centre, the States and the Planning Commission.

The position is now altered. It has altered sufficiently to unsettle the outline of the Fourth Plan which had been taken as settled and needing only the formal stamp of the National Development Council. Whether anticipating difficulties or not, at least one member of the Planning Commission was anxious to rush the final draft of Plan through before the elections but failed in his attempt. The new National Development Council (which includes all the States' Chief Ministers) is a different kind of body. The Chief Ministers of non-Congress States may or may not agree with the priorities and methods of the Fourth Plan, even if they agreed with its objectives. They must also be expected to reopen, at least in part, their States' plans for 1967-68 on which the planning Commission had concluded discussions with the former Governments.

The basic question, however, is not whether the non-Congress parties will want to reopen the Fourth Plan, but whether the Congress should itself be prepared to do so—that is, the new Governments at the Centre and the Congress-ruled States. The party either learns its lesson or it does not. If it does not, nothing can redeem it. If it does, it cannot escape the formulation of a new economic policy that will stimulate production and bring down prices, which is the first imperative. Its economic reforms embrace taxation, expenditure, investment, wages and profits. Since the framework for these is the Fourth Plan, no fresh thinking on them will be possible except in relation to the contents of the Plan.

It is true no doubt that, once the Plan is reopened, the members of the National Development Council of rightist and leftist persuasions will try to pull in opposite directions, the Centre might in the situation feel that it must defend the *status quo* and the result would be a stalemate. The non-Congress parties may have won the election on economic discontent, but cannot run their government on it. They will depend for their stability on a reasonably quick improvement in economic conditions even more than the Centre and the Congress States. There is therefore a strong presumption in favour of their co-operating with the Centre in a reappraisal of the Fourth Plan.

The composition of the Planning Commission and personality of the new Finance Minister will be crucial in the formulation of Plan programmes 1969 onwards. If the structure of planning is not to collapse, these two should not only be impartial as between Congress and non-Congress States. The Com-

mission's membership should be exclusively expert. Central Ministers have also been excluded from the membership. The Commission will of course have to maintain the closest liaison with the Central Ministries and State Governments. The non-Congress States can discuss their problems and ideas with the expert membership without harbouring the feeling that its judgement may be loaded against them. Conversely the Congress States should not feel that the Commission is going out of its way to placate the non-Congress ones. It should not be forgotten that the Fifth Plan is to be formulated before the Fourth ends and so the new State Governments will get an opportunity to speak out on the Fifth as well as the Fourth.

In recent years, there has been a good deal of talk about the need for 'financial discipline' on the part of the States. A Union Finance Minister who cannot influence Congress States to be financially prudent will hardly have the moral authority to exhort the non-Congress ones. Political pull with the Centre has enabled many a State in the past to get away with financial laxity. Any such tendency in the new situation will seriously jeopardise federal financial relations. In Central assistance, in raising loans in the open market, in using the facilities of the Reserve Bank of India, in access to such other Central financial institutions as the Industrial Finance Corporation, in obtaining Central sanction for industrial schemes, the non-Congress Governments should not feel that they are handicapped in any way by the attitudes of the Union Finance Minister. Quite a few controversial schemes are located in non-Congress States—Haldia (West Bengal), Paradeep (Orissa) and Salem (Madras), for example.

In federal financial relations of the immediate future, it would be a mistake to harp too much on the constitutional position in respect of Centre-State relations, although the constitutional delimitation is the ultimate sanction. Smooth federal finance has till now been facilitated by the same party being in the Centre and the States. In practice, this has meant the Centre determining what the relationship ought to be, a situation sometimes resented even by Congress States in the past. The transition from this state of affairs to a genuine financial partnership between the Centre and the States in the new set-up may not be facilitated by a premature show of constitutional strength by the former. Since apparently, what the Centre seeks is a partnership and not a showdown, with the non-Congress States, its emergence will call for a high degree of financial skill and influence on the part of the Finance Minister.

Besides high prices, devaluation of the rupee damaged the fascinating power of the ruling party in the election (among economic factors). It is not surprising that the *Financial Times* of London should have remarked that devaluation was 'forced' on India and that 'Indian exports have not really benefited', by it. The British were sceptical of the remedy. When the proposal was discussed at the International Monetary Fund, the British element in the Fund did not favour it. But later, the Fund as a whole pleaded innocence by making out that the decision really came from the 'adjoining

building' (World Bank) and that the Fund was only the outlet. On the Indian side the Government and the Reserve Bank blamed each other. The Government felt the Bank did not adequately prepare it for the consequences of devaluation while the Bank maintained that it made known the precise implications of the step to the Union Finance Ministry, but the latter ignored them at the time. Whatever that may be the political and economic consequences of devaluation are not unmistakable to everyone.

CENTRAL AID FOR PLAN AND NON-PLAN PURPOSES

A STUDY TEAM of the A. R. C. has submitted a report on the procedures of Central assistance for Plan and non-Plan purposes. The Report makes a number of significant observations on the topical issue of Centre-State relations. Originally the shared tax system involving a devolution of taxes and the statutory grants-in-aid under Art. 275 and the two provisions thereof was intended to be the main vehicle of transfer of funds from the Union Government to the States. Art. 282 was only a subsidiary provision permissive in character to provide for general powers to the States and the Union to make grants for whatever public purposes they deemed fit. The Constitution having been enacted at a time when the national planning process had not gathered momentum and when the major role of the Federal Centre in the financing of the State Plans could not have been anticipated, no distinction between the requirements for the Plan and non-Plan purposes was perhaps considered necessary at that time. With the increase in the developmental expenditure involving the financing, in a substantial measure, of the State Plans by the Centre, Art. 275 no longer remains the main provision for transfer of resources from the Centre to the States, and instead, Art. 282, the grants under which are intended to cater to the various requirements both developmental and non-developmental in the States (and a large part of which is towards Plan Schemes), has come to occupy a dominant position in the financial relationship between the Centre and States. The distinction is significant as the grants under the former article are obligatory while those under the latter are at the discretion of the Centre and may be conditional in character.

The quantum and mode of assistance under Art. 275 of the Constitution are determined by the Finance Commission, which is appointed, in terms of the Constitutional provision, every 5 years. The discretionary assistance from the Central Government under the Art. 282, intended to cater to the requirements of Plan Schemes, is mainly determined by the Planning Commission. There are thus two bodies in the field of determining the quantum of Central assistance to the States—The Finance Commission and the Planning Commission—the functions of which have tended to overlap at many points, and naturally this process has created a not inconsiderable amount of confusion in the criteria adopted in determining Central assistance. In the circumstances, there is scope for the integration of the roles of the two Commissions. But before making any suggestions it would be useful to explain briefly the relative roles

of the Finance Commission and the Planning Commission and how their functions overlap.

The role of the Finance Commission is governed by the basic principles of the federal finance, which seek to meet the residuary budgetary needs of the States, after taking into account the devolution of the Central taxes to the States. The underlying idea is that the constituent units, being at different stages of development, need to be brought up to a minimum level. The Finance Commission looks to only committed current expenditure and does not go into the States tax efforts nor to the varying needs and the level of performance of States in regard to the economic and social overheads. In fact this becomes a budgetary gap-filling body. The various Finance Commissions devised their own schemes for determining the quantum of statutory assistance to the States in the light of the basic principle indicated above. By and large, the emphasis is on the need to meet the budgetary gaps of the States, interpreted in the rather narrow sense of the term, as the Finance Commission takes into consideration only the non-Plan expenditure and the like activities of the States.

Planning changed the entire economic, political and fiscal context in the country. The criterion of budgetary needs, implicit in the Finance Commission recommendations, was eroded by the impact of the Plan expenditure, growing as it was in the last few years. The tax sources of the States being meagre and inelastic generally, the implementation of the State Plans largely depends on the assistance, and this assistance has, admittedly, grown much wider and in terms of magnitude more decisive and effective. The planning Commission helps in the formulation of the State Plans in an overall perspective of the nation-wide strategy of growth. For this purpose, it considers the budgets of the State Governments in their entirety, not excluding the non-Plan revenue and capital expenditure. For determining the quantum of assistance to the States, it bears in mind two broad considerations, viz., the gap in the State Plans, after allowing for additional taxation and borrowing, and second, the commitment involved in the fulfilment of the Centrally sponsored Schemes. For this, it has introduced a number of patterns of schemes, embodying therein the matching principle.

It would be evident from the foregoing that the functions of these two bodies overlap at many vital points. Since these functions are discharged by two different bodies separately, more often than not, the results are contradictory, thereby disturbing the harmony in the Centre-State financial relations. The main reason leading to illogical results by these two bodies is that two different sets of data are used by the two bodies in determining the quantum of Central assistance to the States. As the Finance Commission is engaged in filling the revenue gap through statutory grants, the States are tempted to present figures which under-estimate their resources. On the other hand, in their submission to the Planning Commission, they consistently overestimate their resources raising potentialities as the more they promise to raise, the more they are likely to get. The States ignore their local peculiarities and non-Plan

commitments, etc., in order to get large Central assistance. The other factors which lead to contradictions and irrationality in the functioning of the two bodies are:

(*i*) The working in isolation of these two bodies leads some wealthy States to fudge the figures.

(*ii*) The States with surpluses do not concern the Finance Commission, but these surpluses are significant for Plan expenditure. There is thus a distinction between the Plan expenditure and the non-Plan expenditure drawn by the two bodies.

(*iii*) The data used by the two bodies are different.

The existing dichotomy in the functions in relation to the granting of Central assistance has resulted in certain anomalies and has also created difficulties for which no satisfactory solution appears to have been found. It is necessary to combine the economic function of allocating Central assistance with the quasi-judicial function implicit in the Finance Commission's award. There should be a clear idea about the purposes of Central assistance which are as follows:

(*i*) That broad planning priorities are observed:

(*ii*) That these priorities are adapted to the States' individual needs:

(*iii*) That the States are given proper incentives to develop and tap their resources:

(*iv*) That all resources, whatever their origin, are employed with the maximum economy and efficiency; and

(*v*) That the States are encouraged to contribute creatively to the Planning process.

The Study Team examined the point whether the Planning Commission itself would be able to combine the functions of the Finance Commission with its own existing functions so as to achieve the objectives of Central assistance. The Planning Commission would not be the agency to undertake this function due to the following reasons:

(*i*) The manner of allocation of Plan assistance from the Centre to the States has resulted in creating certain imbalance in the Planning process at the State level, as under the existing practices, the States are more interested in the inclusion of such schemes in the respective Plans as would entitle them to obtain larger assistance from the Centre than the Schemes which would conform to the prevailing resource endowment and the needs; and

(*ii*) The decisions of the Planning Commission do not inspire the same amount of general confidence as the award of an impartial non-political body like the Finance Commission would do.

Next in importance to the machinery charged with determination of the quantum and pattern of Central assistance is the problem of the appropriateness

or otherwise of procedures and forms relating to the release of Central assistance for the use of State Governments. Here, the main problem is in respect of the Plan assistance from the Centre, in the case of which the Central Ministries and the Planning Commission have to watch the proper utilisation for the projects stipulated: the statutory assistance is almost automatic. In this connection it would be useful to recapitulate that previously the assistance used to be released on the basis of the 'recoupment principle'—under which the initial outlay towards the total cost of the Scheme was met by the States from their own resources, the Centre's share being recovered by the State Accountant General on the basis of the actual expenditure—and the matching principle under which States were required to meet the corresponding share and the Centre's share was given in the form of 'loan' and 'grant'. While the 'recoupment principle' tended to strain the finances of the States, the 'matching principle' was stretched to a point where a larger number of patterns resulted and led to considerable difficulties, mainly procedural in character in the States.

In view of these difficulties, a revised procedure was evolved for the release of Central assistance for Plan schemes and put in force in 1958. The main features of this procedure as subsequently modified from time to time are:

(*i*) The procedures for financial sanctions have been simplified in most cases excepting a few categories.

(*ii*) Development schemes under each head have been arranged suitably in groups between which distinction could be made on certain conditions.

(*iii*) Ten out of twelve of the total assistance is released to the States automatically in the form of ways and means advances in 10 equal monthly instalments.

(*iv*) Once the assistance is determined with reference to the patterns for the different individual schemes falling under a head of development, its actual payment as loans and grants is related to the heads and is with reference to the total expenditure reported under each head, the outlay approved for it and the Central assistance agreed.

While the liberalised procedure has facilitated the smooth and easy release of Central assistance to States and consequently the progress of the Plan schemes, it has on the other hand made more difficult the enforcement of national priorities and the effective supervision of expenditure. All in all, therefore, it seems that the existing institutional set-up and the procedural reforms adopted from time to time have not proved adequate for achieving the objectives of a rational allocation of Central assistance to the States and the smooth implementation of the State Plans. Some machinery should be evolved which would enable the States to ensure the smooth implementation of schemes and projects of national importance. With a view to attaining the basic objectives, the Team examined various possible solutions and after a careful consideration of the various aspects, would recommend the proposals contained in the following

paragraphs. The total Central assistance by way of loans or grants that is given to States falls into four main categories, as indicated below:

(*i*) Statutory grants under the award of the Finance Commissions:
(*ii*) Plan assistance for agricultural programmes and other schemes mainly of the nature of social services:
(*iii*) Central assistance to States for the implementation of Centrally sponsored schemes; and
(*iv*) Plan assistance for specific identifiable projects of manufacturing nature or of infrastructural nature such as irrigation, transport, power generation, water works, etc.

Of these, the assistance under the first category is automatic and given in the form of grants. The assistance under item No. (*ii*) though estimated on schematic basis, is released to the States under broad heads and is in the form of partly loans and partly grants. The third category is in the nature of tied assistance for specific schemes and is also in the form of loans and grants. The last category is generally for identifiable projects and there is more or less no provision for grant aid in this type of assistance. The last three categories are the type of assistance which fall currently within the purview of the Planning Commission. The Team proposes to reclassify all this assistance into the following three categories:

(*i*) Existing statutory grants and Plan assistance given for agricultural programmes including C. D. and Co-operation and other social services schemes, e.g., education, health, housing, welfare of backward classes, social welfare, etc:
(*ii*) Assistance for Centrally sponsored schemes; and
(*iii*) Central assistance for specific projects largely in the field of power, major irrigation, transport and industry, etc.

The Team feels that the existing distinction of Centrally sponsored category does not serve any useful purpose. If the Central Government considers the implementation of some schemes imperative in national interest, these should be liberally helped by the Centre. But they should form part of the State Plan and Central assistance should be given to States for implementing these schemes in the same manner as other Plan assistance is given. Since it is necessary that the assistance should be used for specific purposes, it should be made available on scheme-tied basis. The criteria for determining the nature and number of schemes should be indicated by the Planning Commission when it finalises the National and the State Plans.

CENTRE-STATE FINANCES

EVEN BEFORE the fourth general election, the financial relationship between the Centre and the States had been under considerable strain. With the establishment of the Planning Commission for which the Constitution had made no

provision, there has been much overlapping in the functions of the Planning Commission and the Finance Commission. Successive Finance Commissions have drawn attention to this anomaly and suggested effective co-ordination. In fact, the Third Finance Commission went to the extent of suggesting that either the functions of the Finance Commission should be considerably enlarged to embrace the total financial assistance to be afforded to the States (whether by way of loans or devolution of revenues) to enable them both to balance their normal budgets and to fulfil the prescribed targets of the Plans, or the Planning Commission itself should be transformed into a Finance Commission at the appropriate time. The Chairman of the Fourth Finance Commission had in his minute suggested that a thorough review should be made by a special commission of the whole gamut of Centre-State financial problems since the constitutional position was ill-defined. Also the increasing dependence of the States on the Centre, as a result of discretionary transfers, has become a sore point, though such dependence has only enabled the States to default in their responsibility for mobilising resources.

Since the present functioning of the Planning Commission and the Finance Commission had led to considerable disharmony, the ARC has suggested the creation of a National Development Bank to whom Plan resources to be used for specific projects should be transferred. The idea perhaps is that the bank should take over the functions of all loan assistance from the Centre for financing identifiable projects in fields like power, major irrigation, transport and industry. In the initial stages, projects that are only revenue-yielding like consumer industries should be covered and gradually through a phased programme, the Bank should take over all the projects. This scheme would work only if the constitution of the proposed bank would help in the selection of projects on the basis of a rational criterion and their expeditious implementation.

The ARC has also recommended that the bank should be vested with the powers for raising market loans under a system of centralised borrowing by all the State Governments. There is force in its contention that the present system of each State raising market loans directly and separately has been unhelpful, as it has led to heavy discount on the securities of certain States. The question of unauthorised overdrafts by the States has been one of the issues that have troubled Centre-State relations. By suggesting that, apart from temporary requirements to cover exigencies, the State Governments should approach the proposed development bank, which in turn would approach the Reserve Bank for accommodation, the ARC has tried to remove the Reserve Bank from the area of controversy. So far as the Finance Commission itself is concerned, it has recommended that it should be reorganised and made a permanent body to take charge of the present statutory grants and also Plan assistance to non-specific projects like agricultural programmes. While there may be some disagreement over details, the broad approach suggested by the ARC promises to lift the relationship between the Centre and the States to a more practical level.

NEED FOR A TAX POLICY REVIEW

THE INDICATION given by the Government of India that it was considering the question of tax relief in respect of the increase in the cost of assets of industrial units, following devaluation, should greatly relieve those who have been worried about the manner in which the additional cost of imported plant and machinery should be adjusted in their balance sheets. The facility for claiming depreciation and development rebate on the additional cost of the affected assets should not, however, be considered as any special favour conferred on industry. What is of great worry to industry is the fact that the setting up of new projects has become prohibitively expensive and that production costs are all the time rising. While some part of the unexpected burden resulting from devaluation could be covered by tax relief, what is needed is a rational approach to the whole question of taxation and a streamlining of tax rates in such a way that industrial production is stimulated. The Government's unwillingness to shed revenues when the required resources for Fourth Plan schemes are not in sight, is not surprising. But it is wrong to contend that, even after the heavy taxation imposed since 1962, tax revenues constitute only 13 per cent of the national income, as against 25 to 35 per cent in the developed countries, and hence the burden on industry is not heavy. Such comparisons between the developed and developing countries on the basis of percentages are totally misleading. The emphasis here should be on encouraging the growth of the economy, so that larger revenues may be realised from the growing national income. The tax-paying class constitutes a very large percentage of the total population in the developed countries, which is not the case in the developing countries.

The Government should not overlook the realities of the present situation and continue to levy direct and indirect taxes which have a stifling effect on the producer as well as the consumer. There are many industries which are working under difficult conditions and which cannot be expected to implement expansion schemes unless there is an improvement in the profitability of their operations. It has been contended that an indiscriminate increase in indirect taxes on intermediate products and rising cost of raw materials, without corresponding adjustments in selling prices, have resulted in a considerable reduction or the wiping out of profit margins. At the same time, the consumer has been hit hard because prices for the end-product have been unduly inflated by heavy taxes. It is not surprising, therefore, that the private sector has urged that there should be a reduction in the tax burden. As the whole economic situation has changed after devaluation and it has become necessary to examine closely the impact of fresh taxation in the past few years on industrial growth, the Finance Ministry should not proceed on the assumption that the existing tax structure should remain unchanged. There must be a reappraisal of the effects of taxation on savings and investment, and appropriate reliefs given in the next Budget. The economy should not be condemned to a continuing spell of stagnation.

GOVERNMENT CUT SPENDING

ECONOMY IN administrative expenditure received some attention in the last six months, according to information collected from the Centre as well as the States. At the Centre, instructions have been issued that each ministry should surrender for sale through the State Trading Corporation all large sized foreign made cars of post-1960 manufacture. Each Ministry as a whole can, however, retain one such car for special occasions. In future, it is the policy to buy only Indian cars. In regard to drastic reduction of the posts for which deputation allowance is being permitted, the Government has ordered that deputation (duty) allowance will not normally be admissible to Government employees who go on deputation to foreign service ex-cadre posts which carry identical, equivalent or lower scales of pay, except for posts in border areas and those required for security purposes. The Bureau of Public Enterprises has undertaken a review of the scales of accommodation admissible to employees of undertakings and the standards and specifications of construction. A cell has been established in the Ministry of Home Affairs to deploy surplus staff after training, wherever necessary, to other areas. At the State level, the Madhya Pradesh Government has effected cuts amounting to 17 per cent of the strength of gazetted officers and 10 per cent of the strength of Class III. The cuts are expected to save Rs 5.13 lakhs per annum.

The Madras Government has decided to cut 7½ per cent in the number of assistant/upper division and lower division clerks. This cut is to apply to each office individually, subject to the provision that fractions arising while working out the cut may be ignored. To mitigate the hardship that may be caused to people who have been in service for a fairly long time, only such of those surplus clerks or direct recruit assistants/upper division clerks as have been appointed on or after October 1, 1965, would be retrenched while the remaining surplus hands appointed prior to October 1, 1965, will continue in their respective positions and absorbed in future vacancies.

RAILWAY FINANCES, 1966-68

THE INTERIM Railway Budget for 1967-68, presented to the Lok Sabha on March 20, 1967 seeks mainly a vote on account to cover the estimated expenditure for the first four months of the financial year. The estimates of receipts and expenditure for 1967-68 are, therefore, tentative.

The financial results for 1965-66, the latest year for which actuals are now available, disclose amaller surplus of Rs 18.56 crores than that anticipated in the revised estimates for that year (Rs 29.99 crores). This shortfall of Rs 11.43 crores is the net effect of a decline in gross receipts and the increase in working expenses.

The revised estimates of the financial operations of the Railways during 1966-67 indicate, for the first time in several years, a deficit of Rs 15.27 crores

as against a surplus of Rs 22.19 crores expected originally. This has resulted from a steep increase in operating expenses and a substantial shortfall in traffic anticipations. As against the anticipated increase of 12 million tonnes in originating traffic, the available data for the first 10 months of the current year show that revenue earning traffic has increased by only 4 million tonnes. The lower level of traffic is partly due to the relative sluggishness of economic activity and partly to the disruption of traffic resulting from civil disturbances like 'bundhs', border disputes, floods in Assam and drought in Bihar, Eastern U.P. and Madhya Pradesh. In financial terms, the revised gross traffic receipts at Rs 783.75 crores represent a decrease of Rs 11.58 crores from the budget estimates. On the other hand, working expenses show an increase of Rs 27 crores mainly due to the increase in the wage bill consequent upon increased rates of dearness allowance, five upward revisions in coal prices, rising prices of materials used in repairs and maintenance and increase in electricity tariffs in several States. As a result, the Railway Development Fund which had a comfortable working balance during the early years of the Third Plan will be almost completely denuded at the end of the current year.

Despite the difficult financial position, the budget highlights some positive results achieved by the Railways during the year 1966-67. Imported foodgrains of over 8½ million tonnes have been handled satisfactorily. Some creditable results were also achieved in the movement of traffic over some of the traditionally difficult routes and transhipment points. The scheme of running Super Express goods trains has now been stabilised and further improvements in the passenger services have been effected. Besides, capital expenditure on creation of extra capacity has been pruned substantially during the year as the traffic capacity built up to meet the traffic demands has not been fully utilised. And finally, efforts have been intensified to improve productivity and economy in the coming years so as to secure high levels of efficiency coupled with economy in the working of the Railways.

The budget estimates of receipts for the year 1967-68 are based on the existing rates of passenger and goods traffic while working expenses are estimated on the basis of the present level of prices and staff costs. These estimates place the gross traffic receipts at Rs 826 crores an increase of Rs 42 crores over the revised estimates for 1966-67, made up of about Rs 8 crores under passenger earnings and about Rs 33 crores under goods earnings. The total expenditure at Rs 684 crores shows an increase of Rs 18 crores over the revised estimates for 1966-67. The resulting net railway revenue of Rs 141.84 crores will be appropriated for dividend to General Revenues, thus leaving no surplus to be credited to the Railway Development Fund.

The finances of the Railways during 1965-66 (Actuals), 1966-67 (Revised Estimates) and 1967-68 (Budget Estimates) are briefly reviewed below.

1965-66 (Actuals): The financial results for 1965-66, the latest year for which complete accounts are available, place gross traffic receipts lower at Rs 733.57 crores than the revised estimates of Rs 741.80 crores for that year.

This shortfall of Rs 8.23 crores is due to a fall in passenger earnings (Rs 1.33 crores) and other sundry earnings (Rs 10.39 crores), offset to some extent by a rise under goods earnings (Rs 3.49 crores). Total expenditure, on the other hand, shows a rise of Rs 3.17 crores accounted for by an increase under ordinary working expenses (Rs 3.81 crores), counter-balanced by declines under miscellaneous expenses (Rs 0.63 crore) and payment to worked lines (Rs 1 lakh). The net impact of the decline in earnings and rise in expenditure, is a fall in the surplus for 1965-66 from Rs 29.99 crores according to the revised estimates to Rs 18.56 crores (after appropriating to General Revenues as dividend Rs 3 lakhs more than the revised estimates and payment in lieu of tax on passenger fares).

1966-67 (*Revised Estimates*) *:* According to the revised estimates for 1966-67, the gross traffic receipts amount to Rs 783.75 crores or Rs 11.58 crores lower than the budget anticipation of Rs 795.33 crores for that year. This shortfall is mainly on account of lower goods earnings. As against the anticipated increase of about 12 million tonnes in traffic during 1966-67, on present indications only about 4½ to 5 million tonnes of additional revenue-earning traffic would materialise. The revised estimate of goods earnings has, therefore, been placed at Rs 493.00 crores, a decrease of Rs 13.53 crores from the budget estimate: other coaching earnings at Rs 39.00 crores are also expected to show a marginal decline of Rs 0.60 crore. These declines are partly offset by increases under passenger earnings (Rs 2.05 crores) and other earnings (Rs 0.50 crore). Working expenses, on the other hand, are expected to rise from Rs 508.68 crores (budget estimates) to Rs 535.74 crores (revised estimates). Of the increase of Rs 27 crores, Rs 13.22 crores is in respect of staff, mainly due to the rise in the rate of dearness allowance in October 1966. Other major items accounting for the rise in expenditure are, five upward revisions in the price of coal between April and December 1966, as also the increase in the tariffs of several State Electricity Boards (Rs 7.72 crores) and rising prices of materials used in repairs and maintenance (Rs 5.14 crores).

As a result of the shortfall in gross traffic receipts on the one hand and increase in operating expenses on the other, the budgeted surplus of Rs 22.19 crores will now be converted into a deficit of Rs 15.27 crores, after making a contribution of Rs 100 crores (same as originally estimated) to Depreciation Fund and a slightly higher contribution of Rs 133.09 crores to General Revenues (compared to previous year) as dividend and payment in lieu of passenger fare tax (for transfer to States).

The traffic capacity built up to meet traffic demands not having been fully utilised during the year, further capital expenditure on creation of extra capacity has been considerably pruned and this has resulted in a sizeable reduction in the provision for works and rolling stock. The revised estimates of expenditure on works, machinery and rolling stock programme for 1966-67 are placed at Rs 312.37 crores (inclusive of the effect of devaluation to the tune of Rs 20 crores) or Rs 12.63 crores less than the budget estimates.

Simultaneously, efforts were intensified to effect economy in operating costs consistent with efficiency and safety. In August 1966, a ban was placed on the recruitment of ministerial staff for administrative offices. Procedures were rationalised and simplified and unproductive works eliminated. Application of works study techniques to more areas of railway operation and transfer of more and more routine items of work to machines are being made to promote greater efficiency and economy in railway operations.

1967-68 (Budget Estimates) : The forecast for 1967-68 places the gross traffic receipts at Rs 826 crores, an increase of about Rs 42 crores over the revised estimates for 1966-67. These estimates assume an increase of about Rs 8 crores under passenger earnings and about Rs 33 crores under goods earnings.

Of the total receipts of Rs 826 crores, Rs 526 crores or 64 per cent are expected to accrue from goods earnings, Rs 237 crores or 29 per cent from passenger traffic and Rs 63 crores or 7 per cent from other coaching and sundry earnings.

Total ordinary working expenses for 1967-68, estimated at Rs 553.21 crores, are Rs 17.47 crores higher than the revised estimates for 1966-67, mainly because of the provision for annual increments, a full year's effect of the higher rates of dearness allowance to staff (Rs 13.09 crores) and an expected increase of Rs 3.82 crores in fuel bill.

The estimated revenue position does not admit of the full contribution of Rs 115 crores to the Depreciation Reserve Fund for 1967-68 as recommended by the Railway Convention Committee, 1965 and approved by the Parliament. The actual contribution provided for at this stage is, therefore, limited to Rs 99 crores which is Rs 1 crore less than in 1966-67 (revised estimates) and Rs 16 crores less than the recommended amount of Rs 115 crores. The Minister, however, has stated that this shortfall will have to be made good at the earliest opportunity as the expenditure from this fund in 1967-68 is estimated to be Rs 110 crores or Rs 11 crores more than the amount provided for in the budget. Other appropriations for the budget year include transfer to Pension Fund (Rs 14.90 crores) and Dividend on the Capital-at-charge (Rs 141.84 crores) which also includes payment to general revenues in lieu of tax on passenger fares. On the basis of these estimates of earnings and expenses, there will be no surplus left at the end of the year 1967-68.

The capital budget for 1967-68 envisages a further pruning of the expenditure on works, machinery and rolling stock to Rs 305 crores as against Rs 312 crores in the revised estimates for 1966-67. The aggregate balances in the Railway funds which comprise the Depreciation Reserve Fund, Revenue Reserve Fund, Development Fund and the Pension Fund (created in 1964-65) would, at the end of 1967-68 amount to Rs 159.35 crores or Rs 6.57 crores higher than in 1966-67 (revised estimates). The Development Fund will be almost wiped out at the end of the current year and there will be no accretion to this fund from revenue in 1967-68.

The actual expenditure on Railway Development programme in the Third Plan has been placed at Rs 1,685.85 crores. In order to keep further capital

expenditure under check, the Railways were constantly assessing the traffic potential in consultation with the Planning Commission and the concerned Ministries. As a result, there has been a steep reduction in provision for works and rolling stock. The expenditure on these during 1966-67 has been reduced substantially to Rs 312.37 crores (compared with Rs 363.67 crores during 1965-66) and further to Rs 305 crores during 1967-68 (Budget).

The resources provided by the Railways for financing the plan outlay in the Third Plan period amounted to Rs 630.95 crores or 37 per cent of the total outlay of Rs 1,685.85 crores. During the First and Second Plan periods, these aggregated to Rs 284.05 crores (67 per cent of the Plan outlay of Rs 423.23 crores) and Rs 395.18 crores (38 per cent of the outlay of Rs 1,043.69 crores) respectively.

STATE FINANCES, 1967-68

It is premature to draw any final conclusions about the State finances on the basis of the interim budgets presented by several State Governments so far. In view of the commitments in respect of the increased dearness allowances to Government employees, many of them have been forced to present deficit budgets. Even some of the States which show a surplus on revenue account face an overall deficit. Among the States which have presented deficit budgets are Kerala, Madras, Bihar, Andhra, Haryana and the Punjab. In contrast, at least four States, Maharashtra, Gujarat, Mysore and Orissa, have produced surplus budgets. The presentation of a surplus budget itself does not warrant any complacency. For instance, in the case of Maharashtra, the surplus has been largely achieved because of accounting skill and adventitious circumstances like the rise in prices which have resulted in an increase in tax receipts.

Among others, the Mysore Government has not only fulfilled its promise of ending deficit financing, with a surplus budget on revenue account, but it has also promised to wipe out the overall deficit by proposing some bold measures. While abolishing land revenue in the present form, which would mean a sacrifice of nearly Rs 7 crores, the State Government proposes to make it up by 'rationalising' the structure and also intends to modify the prohibition policy in order to bring in an additional revenue of about Rs 4 crores. This evidently requires some courage on the part of the Finance Minister in view of the ambiguous attitude adopted by the Congress party to the prohibition issue. Another State Budget, that of the Punjab, requires mention. Though it has a deficit budget, the Punjab Government has chosen to give relief by abolishing land revenue on holdings up to 5 acres in order to boost agricultural production.

In recent years, State finances have been in a parlous condition. State Governments have failed to reach the targets in respect of mobilising additional resources for fulfilling their Plans. At the same time, they have resorted to large-scale overdrafts to meet their increasing commitments. It may be recalled that over the Third Plan period, the total outstanding debt of the States

almost doubled to Rs 5,412 crores. Loans from the Centre, estimated at Rs 4,091 crores as at the end of March, 1966, showed a rise of Rs 2,075 crores and account for more than three-fourths of the rise in the total debt over the Third Plan period.

Presenting his interim budget of the Union, Mr Morarji Desai pointed out that but for the additional assistance to some of the States to clear their overdrafts and the subsidised sale of food grains and fertilisers, the deficit of the Centre would not have mounted to the high figure of Rs 350 crores. The assistance to some of the States because of their overdrafts from the Reserve Bank alone amounted to Rs 113 crores. In view of the need for exercising financial discipline, there is, therefore, no alternative to certain unpalatable steps. The Reserve Bank has already informed the States that in case an unauthorised overdraft persists in future, the Bank would give notice to the State calling upon it to take steps to eliminate such overdraft within a period of three weeks, failing which it would be open to the Bank to stop payments on account of the State. Opposition parties, which try to embarrass the Centre by siding with the States on this issue, do not seem to take the larger interest of the country in view. However can the Centre be blamed for its failure to curb prices if it allows the States to go on resorting to inflationary financing?

In the field of Centre-State financial relations, this is a subject that will, of course, come in for a good deal of discussion. The Madras Chief Minister has already suggested that deficit financing can be avoided on the basis of a radical recasting of Plan programmes and priorities and that in this process, Central schemes as well as the Centre's non-Plan expenditures should come under scrutiny. He has argued that if in the process of allocating more funds for State schemes of immediate importance, some projects of lower priorities in the Central sector have to be slowed down, 'we should not flinch from such a course'.

Whatever may be the attractiveness of these suggestions, in actual implementation, many of them will pose considerable difficulty. Already some of the States with non-Congress Ministries have asked for a more 'realistic distribution' of resources between the Centre and the States. While it is only proper that a better equilibrium should be brought about to help the States to fulfil their commitments, it would be naive to accuse the Planning Commission of 'authoritarianism', while the States themselves contribute to their financial dependence as a result of their failure to raise resources. In the ultimate analysis, whatever might be the responsibilities of the Centre, the States on their part cannot escape their responsibility for observing financial discipline, husbanding their resources carefully, and improving the efficiency of their administration in order to carry out successfully the State Plans.

According to indications, Mysore wants to raise its resources upto Rs 24.25 crores for the next year and it expects a Central contribution of Rs 36 crores. One factor which might act as a very big dent in the financial resources is the loss of heavy amount from surplus electricity remaining unused. The Madras

Government, which used to buy power from Mysore whenever it was in difficulty, is now refusing to take power since Neyveli power is sold at a cheap rate of 5.25 paise a unit, and secondly its lakes are full. Unfortunately, new industries are also not coming up fast in the State to utilise the surplus power despite many incentives offered for outside industrialists.

Another likely big drain on the State exchequer will be the Central D.A. for the Government employees entailing an additional annual expenditure of Rs 7 crores. Two neighbouring States have already granted Central D.A. to their employees and pressure is mounting inside the State to concede the demand. The Finance Minister in his budget speech had already committed himself in the Assembly that Government would abolish land revenue in the present form without losing the income to Government from this source. But reports from different parts of the State say that tenants are opposed to the abolition of land revenue fearing that any alternative scheme might act to their detriment. Revenue authorities are also opposed to the abolition of the land revenue as such although it is not a big source of income to the Government since much of it goes to the panchayats and taluk boards.

Amidst this all-pervading gloom, the one silver lining is the steep rise in excise revenue following the Government's decision to scrap Prohibition completely thus, raising the income from Rs 4 crores last year to Rs 10 crores this year. Thus, Mysore will have to find some additional source of revenue to augment its finances, if for political reasons it does not want to cut its Plan size.

OUTLAYS BY STATES, 1967-68

THE AGGREGATE outlays of the States (revenue and capital accounts combined), which were placed at Rs 3,204 crores in the budgets for 1966-67, have risen by Rs 227 crores to Rs 3,431 crores, according to the revised estimates. Of this rise, Rs 92 crores was on revenue account and Rs 135 crores on capital account. On revenue account, while the developmental expenditure has been somewhat smaller than the budget level, the non-developmental heads accounted for the increase. Among these, debt services accounted for a rise of Rs 23 crores mainly due to larger interest payments on advances and on loans taken from the Central Government. Expenditure on civil administration has also gone up by Rs 11 crores. But the item accounting for most of the increase in expenditure was famine relief. The budgeted expenditure on famine relief was only Rs 19.5 crores; but owing to drought conditions in many States, famine relief measures are now estimated at Rs 81.5 crores. The States accounting for the major portion of this rise are Madhya Pradesh (Rs 16.0 crores), Bihar (Rs 10.0 crores), West Bengal (Rs 7.6 crores), Rajasthan (Rs 7.2 crores), Orissa (Rs 5.5 crores), Uttar Pradesh (Rs 4.7 crores) and Gujarat (Rs 4.0 crores).

On capital account, while direct capital outlays were maintained at the budgeted level, loans and advances and other expenditures shot up. Loans and advances granted by the State Governments now stand at Rs 461 crores against the budgeted figure of Rs 381 crores. These loans are advanced by the

States (1) to agriculturists under the Land Improvement Loans Act and the Agriculturists Loans Act, (2) to industrial concerns under the State Aid to Industries Acts, (3) for various housing schemes, (4) under the Community Development Programme, and (5) to local bodies. The increase of Rs 80 crores between the budget and revised estimates for 1966-67 was mainly due to increased loan assistance (1) to agriculturists for increasing agricultural production and as part of drought relief measures, (2) to Government servants for meeting the demand for housing, and (3) to co-operatives. The States accounting for the increase were Andhra Pradesh (Rs 14 crores), Bihar (Rs 19 crores), Gujarat (Rs 9 crores), Uttar Pradesh (Rs 11 crores), Orissa (Rs 7 crores), Mysore and Madhya Pradesh (Rs 6 crores each) and Rajasthan (Rs 5 crores). The provision for repayment to the Centre of additional short-term loans went up by Rs 62 crores. Such repayments were made by Andhra Pradesh, Maharashtra, Mysore, West Bengal, Orissa, Rajasthan, Madhya Pradesh and Uttar Pradesh.

For the year 1967-68, the aggregate outlays of the States have been stepped up by Rs 357 crores to Rs 3,788 crores over the revised estimates of 1966-67. Of this rise, Rs 226 crores is on revenue account and Rs 131 crores on capital account. Of the rise of Rs 226 crores on revenue account, developmental expenditure accounts for Rs 184 crores, the main increases being under education (Rs 74 crores), medical and public health (Rs 35 crores), agriculture (Rs 29 crores), irrigation (Rs 5 crores) and civil works (Rs 14 crores). Under non-developmental heads, the cost of collection of taxes is estimated to go up by Rs 9 crores to Rs 103 crores, while the expenditure on debt services will rise by Rs 32 crores, reflecting the growing volume of debt of State Governments. The expenditure on civil administration is likely to amount to Rs 304 crores—a rise of Rs 22 crores over the revised estimates for 1966-67, mainly on account of increased dearness allowance to Government employees.

Of the rise of Rs 131 crores on capital account, developmental outlays will absorb Rs 25 crores. Among the developmental heads, multi-purpose river schemes account for a rise of Rs 18 crores reflecting the importance attached to these schemes which will have impact on agricultual productivity. The provision for buildings and roads and industrial development has also been stepped up by Rs 16 crores to Rs 196 crores. Under debt heads, while loans and advances by State Governments at Rs 404 crores are expected to be smaller by Rs 57 crores than in 1966-67 (R.E.), the provision for repayment of loans to the Centre has gone up by Rs 77 crores. Discharge of permanent debt budgeted at Rs 62 crores is also higher by Rs 50 crores over 1966-67 (R.E.) owing to larger amount of loans due for repayment in 1967-68.

As between the budget and revised estimates for 1966-67, the total resources (revenue and capital accounts combined) have shown an increase of Rs 201 crores to Rs 3,348 crores (Table 89). It may be observed that while tax revenue has remained near-stagnant, almost the entire increase was on account of capital receipts. The States' share from the Centre's tax revenue has shown a rise of

Rs 16 crores to Rs 367 crores, mainly under excise duties. However, collections under States' own tax resources have declined by Rs 7 crores to Rs 925 crores. There was a sharp decline in land revenue collections by Rs 33 crores to Rs 88 crores owing to drought conditions in many States. However, collections under general sales tax rose by Rs 18 crores to Rs 393 crores over the budget estimates and small increases were recorded under State excise duties, tax on motor spirit, entertainment tax, etc. Under non-tax heads, the administrative receipts have increased by Rs 12 crores to Rs 147 crores and the net contribution of public enterprises at Rs 77 crores was higher by Rs 4 crores over the budget estimates.

On capital account, the receipts under market borrowings at Rs 105 crores were larger by Rs 12 crores than the budget anticipations. Loans from the Centre at Rs 891 crores in the revised estimates were higher by Rs 256 crores than the budget expectations and more than accounted for the total rise in receipts on capital side. This increase was necessitated by additional Central assistance during 1966-67 for plan schemes, drought relief measures and also for clearing unauthorised overdrafts from the Reserve Bank. Recoveries on account of loans and advances granted by the States were lower at Rs 113 crores as against the budget estimate of Rs 127 crores. The provision for repayments (net) on account of floating debt (which represents short-term credit from banks and ways and means advances and overdrafts from Reserve Bank) has gone up by Rs 106 crores.

TABLE 89

RESOURCES (BY MAIN GROUPS) OF STATES

(Crores of Rupees)

	1965-66	*1966-67*		*1967-68*
	(Accts.)	*(B.E.)*	*(R.E.)*	*(B.E.)*
A. Revenue Account				
Total revenue receipts	1,850	2,126	2,145	2,376 (2,404)
1. Tax Revenue	1,118	1,283	1,292	1,411 (1,439)
(*a*) Share from the Centre	276	351	367	383
(*b*) States' own resources	842	932	925	1,028 (1,056)
2. Non-Tax revenue	732	843	853	965
(*a*) Grants from the Centre	330	405	401	448
(*b*) Administrative Receipts	145	135	147	162
(*c*) Net Contribution of Public Enterprises	60	73	77	80
(*d*) Others (Residual)	197	230	228	275
B. Capital Account				
Total Capital Receipts	1,309	1,021	1,203	1,259
(*a*) Permanent Debt	107	93	105	109
(*b*) Loans from the Centre	816	635	891	752
(*c*) Others (Residual)	386	293	207	398
Grand total (Revenue and Capital Accounts)	3,159	3,147	3,348	3,635 (3,663)

The aggregate receipts of States during 1967-68 (revenue and capital accounts combined), at the existing levels of taxation, are expected to reach Rs 3,635 crores—a rise of Rs 287 crores over the revised estimates for 1966-67. Bulk of this rise (Rs 231 crores) is expected on revenue account. Of this, Rs 119 crores will be under tax heads and Rs 112 crores under non-tax heads. The States' share from Central taxes is expected to go up by Rs 16 crores to Rs 383 crores. States' own tax resources are expected to show a rise of Rs 103 crores over 1966-67 (R.E.) to Rs 1,028 crores. Of the rise of Rs 103 crores, as much as Rs 57 crores is expected to accrue under general sales tax, followed by land revenue (Rs 10 crores), State excise duties (Rs 9 crores), motor vehicles tax (Rs 6 crores), stamps and registration, electricity duties (Rs 4 crores each) and tax on motor spirit (Rs 3 crores). It may be noted that general sales tax is the largest single head in the States' tax resources accounting for about 45 per cent of States' own tax revenue (Rs 450 crores) in 1967-68. Under non-tax revenue, grants from the Centre would go up by Rs 47 crores to Rs 448 crores, while administrative receipts show a rise of Rs 15 crores. Net contribution of public enterprises at Rs 80 crores in 1967-68 shows a rise of Rs 3 crores.

Total capital receipts estimated at Rs 1,259 crores in 1967-68 would show a rise of Rs 56 crores over 1966-67 (R.E.). A credit of Rs 109 crores, Rs 4 crores more than in 1966-67, has been taken for market borrowing. Excluding Maharashtra, which has not taken credit under this head, market borrowing in 1967-68 will be larger by Rs 19 crores. Loans from the Central Government at Rs 752 crores are lower by Rs 139 crores. This decline is more than counterbalanced by larger receipts under recovery of loans granted by the States (Rs 39 crores), a net accrual under deposits and advances (Rs 27 crores) and net receipt of Rs 12 crores under floating debt as against net payment of Rs 125 crores in 1966-67.

The overall budgetary position of the States is expected to show a record deficit of Rs 159 crores. In order to bridge this gap, 11 States have proposed measures for additional taxation which are expected to bring in Rs 28.36 crores. Though the budgets of Madhya Pradesh and Orissa show a surplus, they have proposed measures of additional taxation of the order of Rs 5.60 crores and Rs 1.28 crores, respectively, which will improve their cash balances position to that extent. Also, Andhra Pradesh, Mysore and West Bengal have under consideration certain tax measures which would be announced during the course of the year. On present indications, the additional taxation proposed by the States appears to be meagre in relation to the overall deficit, and the States are, therefore, likely to end the year 1967-68 with a large deficit. The financial effects of the tax proposals of the 11 States, both State-wise and according to tax heads, are presented in the table below.

TABLE 90

ESTIMATED YIELD FROM BUDGET PROPOSALS IN STATES

(Rupees Crores)

By States	
1. Assam	1.68
2. Gujarat	0.60
3. Haryana	3.10
4. Jammu and Kashmir	0.40
5. Kerala	1.55
6. Maharashtra	2.40
7. Madras	5.25
8. Madhya Pradesh	5.60
9. Mysore	4.00
10. Orissa	1.28
11. Rajasthan	2.50
Total	28.36
By Major Heads	
1. General Sales Tax	12.63
2. Irrigation and Water Rates	2.54
3. Rural Immovable Property Tax	2.50
4. Stamps and Registration Fees	1.49
5. Motor Vehicles Tax	1.45
6. Land Revenue	1.25
7. Passenger Tax	1.01
8. Electricity Duties	0.40
9. Others	5.09
Total	28.36

STATE GOVERNMENTS' DEBTS

THE OUTSTANDING debt liabilities of the State Governments which had shown a twelvefold increase to Rs 5,502 crores during the fifteen years ended 1965-66, showed a further rise of Rs 838 crores during 1966-67 (Table 91). A major portion of these loans flowed from the Union Government (mainly for the capital outlays of States) the outstandings under which soared from Rs 4,095 crores in 1965-66 to Rs 4,841 crores in 1966-67. During 1967-68, according to the budget of the Union Government, loans from the Union Government to States are expected to be of the order of Rs 828 crores, while the repayments of loans to the Union Government provided for by the States in their budgets aggregate Rs 376 crores. The servicing of this growing volume of debt, apart from the repayment obligations, puts considerable strain on States' resources. The cost of servicing alone worked out to Rs 367 crores in 1966-67; the repayments due to the Union Government aggregated Rs 299 crores in that year. It may

be observed that these two items together have been claiming a large chunk of the budgetary resources of States in the recent past.

During 1966-67, permanent debt of the States (comprising market loans and certain other categories of debt like Zamindari Abolition Compensation Bonds, etc.) which ranks next to loans from the Union Government, rose by Rs 93 crores to Rs 917 crores. 'Other debt' [which includes loans from National Agricultural Credit (Long-term) Operations Fund of the Reserve Bank of India, loans from National Co-operative Development Corporation and Central Warehousing Corporation, loans from Khadi and Village Industries Commission, Employees' State Insurance Corporation, Life Insurance Corporation, etc.] also went up by Rs 22 crores during the year as compared with the rise of Rs 39 crores in the preceding year. Floating debt representing short-term accommodation from Reserve Bank, commercial banks, etc., which had risen considerably during 1965-66 from Rs 70 crores to Rs 195 crores, registered decline in 1966-67; but the outstanding level at Rs 143 crores on March 31, 1967 was more than double the amount as on March 31, 1965, owing mainly to the continuous failure of two monsoons on the one hand and the substantial increase in outlays on State trading in food by the States on the other. Besides, a few States resorted to deficit financing by leaning, rather too heavily, on unauthorised overdrafts from the Reserve Bank, which could not be cleared by them in time. However, consequent on an understanding reached between the Union and the States, a considerable portion of these overdrafts was cleared by the States in 1966-67 with the help of special assistance from the Union Government. The special assistance granted by the Union to States mainly for clearing their overdrafts with the Reserve Bank amounted to Rs 152 crores, of which Rs 108 crores were made repayable in 2 to 5 years and the balance in the same year. Prior to 1965-66, such advances by the Union, which amounted to Rs 22 crores in 1963-64 and Rs 34 crores in 1964-65, were repayable by the States in the same year. Out of Rs 101 crores received by the States under this category in 1965-66, almost half (Rs 51 crores) was made repayable in 2 to 5 years.

TABLE 91

DEBT POSITION OF STATES

(In Crores of Rs)

	End-March					
	1952	*1956*	*1961*	*1965*	*1966*	*1967 (R.E.)*
Permanent Debt	133.71	264.48	493.12	721.60	823.75	917.16
Floating Debt	15.66	8.20	41.75	70.29	194.76	143.36
Loans from the Union Government	238.54	876.07	2,015.81	3,558.74	4,094.63	4,840.88
Other Debt	...	...	51.87	116.85	165.39	178.35
Unfunded Debt	57.37	83.19	134.93	203.17	232.12	260.37
Total	445.28	1,231.94	2,737.48	4,670.65	5,510.65	6,340.12

Fourteen State Governments issued on September 12, 1966, $5\frac{1}{2}$ per cent 12-Year Loans for an aggregate amount of Rs 93.50 crores at issue prices varying from Rs 98.00 per cent to Rs 99.0 per cent. The lists for all the fourteen loans were closed by September 17, 1966, the loans being either fully subscribed or oversubscribed. The total amount subscribed aggregated Rs 98.33 crores. Cash subscriptions amounted to Rs 98.11 crores and the balance of Rs 0.22 crores was by way of conversion. After repaying the maturing loans amounting to Rs 1.34 crores, the net market borrowings of the States in 1966-67 amounted to Rs 97 crores.

On August 19, 1967, 15 State Governments announced their decision to raise Rs 114.75 crores in the form of 12-year loans carrying $5\frac{3}{4}$ per cent interest per annum. The issue price of these loans varied between 97 per cent and 99 per cent giving yields ranging from 5.87 per cent to 6.11 per cent per annum. Eight State Governments also announced the facilities for conversion of their maturing loans, at par, into the new loans of the respective States, the total of such loans aggregated Rs 51.12 crores. The loans are redeemable, at par, after 12 years on September 1, 1979.

OVERDRAFTS BY STATES

The Reserve Bank of India has suggested to the Centre to refix the minimum cash balances of the State Governments as well as normal authorised limits of ways and means advances on the basis of the proposed minimum cash balances. Another suggestion is that special ways and means advances should be on the basis of the State Governments holding of Government of India's securities. The Bank has also proposed that if the normal ways and means advances remain unadjusted in any case for three months, the same should be cleared by the Central Government and recovered from the State Government by adjustment against payments due to it from the Centre. These suggestions have been made to stop the States' practice of having overdraft from the Reserve Bank. Some time back the Union Finance Minister had met the Chief Ministers to urge them to curtail their calls on the Reserve Bank. It was agreed that a new scheme for overdrafts might be prepared. In the first 2 years of the Third Plan, Bihar, Kerala and Madhya Pradesh were reportedly the main defaulters. The Finance Ministry has examined the proposals made by the Reserve Bank.

The Ministry feels that the limits suggested by the Reserve Bank are on a very low side. For example, against the present arrangements under which normal ways and means accommodation is allowed by the Reserve Bank upto twice the minimum balances of the State Governments, the suggestion now is to restrict these advances equal to the minimum cash balances. Similarly, the limit of special ways and means advances against cover of Government of India's security is also sought to be brought down. Moreover, the Ministry's view is that the precise action to be taken in the event of States overdrawing beyond the proposed limits is yet to be settled. The Finance Ministry, therefore,

feels that the ministry's officials should meet the Reserve Bank Governor to discuss the details. The existing limits regarding calls by the States on the Reserve Bank are:

	Rs Lakhs
Maharashtra	120
West Bengal	50
Madras	80
Andhra	60
Assam	20
Bihar	40
Madhya Pradesh	80
Orissa	20
Rajasthan	14
Kerala	30
Mysore	50
Gujarat	60
Nagaland	10

Assam is facing a serious financial crisis. The current year's deficit was originally expected at Rs 10 crores but it is now expected to be Rs 30 crores. This is due to the State Government's additional commitment by way of Additional Dearness Allowance to its employees and teachers, and non-realisation of dues from the Centre. The financial difficulties have also been enhanced by the State's failure to persuade the Centre to agree to a levy on Jute and Tea and the delay in securing the Prime Minister's arbitration on the increase of royalty on the supply of crude oil. If the Reserve Bank of India refused to give overdrafts, the State would be forced to halt its development activity. There was no scope for economy in non-Plan expenditure.

West Bengal has heavily withdrawn from the Reserve Bank of India in the recent past to an extent to cause concern. The Union Government has been posted with the chain reaction of industrial unrest. Production which has been coming down has reached a new low ebb. The flow from Excise and Customs has shown a considerable downgrade trend. While exact receipts are not known, it is feared that the fall may be more than 25 per cent. This, in turn, may affect the national economy. It is gathered that, in keeping with the understanding reached at the Chief Ministers' Conference with the Union Finance Minister, the Reserve Bank does not publish figures and hoists the Storm Signal when necessary. Each State is allowed considerable elbow room and periodical reminders about the ways and means position of the States. Restrictions are intended to put men in charge of their State finances on their toes. Since the States raised a hue and cry about their being named as defaulters, the Union Government is unwilling to disclose the extent of overdrafts which are considerable. But it is gathered that the Reserve Bank will be within its rights

to issue a final warning when the breaking point is reached. In West Bengal, there seems to be no effort to mend the fence. Inquiries as to whether the Union Finance Ministry sent a special communication to the States not to rely on overdrafts, elicited the answer that no such action was necessary and the Ministry has adopted a firm attitude to deficit financing in general and made no exception of any State. Andhra Pradesh was put on the mat when the Reserve Bank refused to honour the ceiling on overdrafts was crossed.

PAY AND D.A. SCALES RISE IN STATES

ALL STATES barring Assam have raised, or agreed to revise soon, the rates of dearness allowance involving a substantial step up of non-plan expenditure which is likely to be of the order of Rs 100 crores per year. The D.A. increases have been announced in rapid succession by State after State in the wake of an agitation by employees in certain parts of the country for neutralisation of the rise in the cost of living and partly with Central D.A. rates. Meanwhile, according to estimates made of the increases in about eight States, the burden in full year would exceed Rs 60 crores. A few other States have announced *ad hoc* relief or flat increases while in States like Kerala and U.P. where there had been prolonged strikes, commissions have been set up to make recommendations within a month. One or two States like Rajasthan have first announced the quantum of increase. In most of the States, committees of officials or commissions have been at work examining not only D.A. Rates but also the pay structure. In certain States the D.A. has been raised twice within six months while sections of non-Government staff including teachers have also been covered in States including Maharashtra, West Bengal and Orissa. When all the commissions including those of Kerala and U.P. have reported, the total cost on this account may go beyond Rs 100 crores a year. It will mean a cut back of resources for the Fourth Plan anywhere between Rs 400 and Rs 500 crores. About 12 State Governments announced the changes in D.A. rates in the latter half of January when the demand for higher D.A. gained momentum helped by combination of economic and political factors. Though some of the Chief Ministers had, in the past, urged the Centre to share the burden of additional D.A. the Union Government has stuck to the view that it is the responsibility of the States to find the resources for revision of pay scales and allowances of their employees. The expectation of nine States to effect economies totalling Rs 43 crores in 1966-67 may not materialise in view of the additional expenditure on D.A. and other circumstances. The States were enjoined in July last to balance their budgets and exercise utmost financial discipline in order to hold the price line. One of the immediate tasks of the new Governments at the Centre and in the States, will be to find ways of arresting the race between prices and wages. Despite the economy drives at the Centre and in the States, the current year has ended with big deficits calling for new measures to contain the inflationary pressures. The

question of dearness allowances in the context of the demand for parity between Central and State rates is likely to come up for discussion at a conference of Chief Ministers some time later.

DISBURSEMENTS OF LOCAL AUTHORITIES EXCEEDED TAX AND NON-TAX RECEIPTS IN 1965-66

WHILE TOTAL tax and non-tax receipts of local authorities exceeded disbursements in 1962-63, disbursements exceeded total tax and non-tax receipts in 1965-66. This is revealed by a study made by the Division of Monetary Economics of the Economic Department of the Reserve Bank of India. The findings relate to five port trusts, 14 municipal corporations, and 63 municipalities covering 241 lakhs or 35 per cent of the total urban population covered by all local authorities. Total receipts for 1962-63 amounted to Rs 214.1 crores and disbursements to Rs 211.3 crores. In 1965-66, they amounted to Rs 282.4 crores and Rs 319 crores (budget estimate) respectively.

Receipts from rates and taxes rose steadily from Rs 83.6 crores in 1962-63 to Rs 92.1 crores in 1963-64, to Rs 100 crores in 1964-65 and further to Rs 108.2 crores in 1965-66. Grants from Government remained unchanged at around Rs 10.4 crores during 1962-63 but increased to Rs 12.7 crores in 1964-65, to Rs 26.4 crores in 1965-66—an increase of 38 per cent. Loan receipts were also larger rising from Rs 23.6 crores (11 per cent of total receipts) in 1962-63 to Rs 40 crores (14 per cent of total receipts) in 1965-66. It may be noted that while total receipts both on revenue and capital accounts rose between 1962-63 and 1965-66 by 32 per cent (Rs 68.4 crores) tax revenues (taxes and rates) showed a smaller rise of 29 per cent.

Property tax accounted for about half of total tax revenues and its share in total receipts varied between 18 per cent and 20 per cent during the period under review. With the substantial increase in new residential and non-residential construction and a considerable rise in the prices of urban land and property, property tax could be expected to yield larger revenues. The disbursements of local authorities increased by about 50 per cent from Rs 211.3 crores in 1962-63 to Rs 319 crores in 1965-66. Two-thirds of the estimates were in respect of city corporations. The expenditure on social and developmental items consisting of public health and conveniences, public safety, public instructions and public works, which accounted for Rs 66.9 crores (31.7 per cent of total disbursements) in 1962-63 rose to Rs 108.6 crores in 1965-66 (34 per cent of total disbursements) showing an increase of Rs 41.7 crores or 62 per cent over the 4 year period. City corporations recorded the highest rise of Rs 28.9 crores to Rs 73.8 crores followed by municipalities which registered a rise of Rs 8.1 crores to Rs 21.6 crores.

Because of higher borrowings by local authorities, disbursement on account of amortisation payments (including sinking fund) also increased from Rs 21.4 crores in 1962-63 to Rs 33.7 crores in 1965-66 and formed about 11 per cent

of total disbursements. General administration, maintenance and repairs and depreciation charges together moved up from Rs 30.5 crores to Rs 38.6 crores. However, as a proportion to total disbursements on account of these items declined from 14 per cent to 12 per cent.

Borrowings of local authorities increased from Rs 24.6 crores in 1962-63 to Rs 29 crores in 1965-66. Outstanding loans from Government showed a larger increase as compared with loans from the market: the former rose from Rs 120.5 crores at the end of March 1963 to Rs 144 crores as at the end of March 1965, while the latter recorded a rise from Rs 111.6 crores to Rs 119 crores. Other borrowings, mainly from banks, also rose from Rs 14.2 crores to Rs 20.1 crores, almost the entire rise in this category being on account of port trusts.

Total loans raised from the public by all categories of local authorities covered by the Survey increased from Rs 5.3 crores in 1962-63 to Rs 9.9 crores in 1964-65. After adjusting for repayments on account of maturing loans, net receipts from public loans aggregated Rs 2.8 crores in 1962-63, Rs 4.2 crores in 1963-64 and Rs 3.2 crores in 1964-65. The outstanding loans from public amounted to Rs 119 crores as at the end of March 1965. Of this outstanding borrowings, 20 per cent were loans maturing after 15 years, 31 per cent between 10 and 15 years, 28 per cent between 5 and 10 years and the remaining 21 per cent within 5 years.

Total investments of local authorities on all accounts rose from Rs 202.3 crores as at the end of 1962-63 to Rs 213.5 crores as at the end of 1963-64, but declined to Rs 205.6 crores at the end of March 1965. Investments on own accounts declined from Rs 117.9 crores as at the end of March 1963 to Rs 109.7 crores two years later, after showing an increase of Rs 1.6 crores in 1963-64 over that in 1962-63. Total receipts of local authorities increased steadily from Rs 207.2 crores in 1961-62, the first year of the Third Plan, to Rs 282.4 crores in 1965-66, the final year, while total disbursements rose from Rs 227.4 crores to Rs 319 crores over the same period. During the Third Plan period, aggregate receipts at Rs 1,189.5 crores fell short of aggregate disbursements by Rs 80.8 crores.

MUNICIPAL FINANCE

A COMMITTEE of the Union Government has recommended the setting up of a Municipal Finance Corporation to meet the capital requirements of urban local bodies in providing public services. The Report of the Rural-Urban Relationship Committee, says that the proposed corporation should have an authorised capital of Rs 10 crores to be subscribed by the Central Government, State Governments, the Reserve Bank and the State Bank of India, the L.I.C., commercial banks and other financial institutions as well as local bodies. The corporation should be run on commercial lines and should have the power to issue debentures and raise market loans under the guarantee of the Union Government. The Committee, which was set up to examine the problems of local Government, with particular reference to co-ordinated development

of rural and urban areas, has suggested a series of measures to strengthen the functions and finances of urban local bodies. These are based on a study of the expenditure pattern and municipal services provided by 100 local bodies. The Committee has recommended changes in the property tax with a statutory minimum rate of 10 per cent on the annual rental value of the property as general house tax, two per cent lighting tax and five per cent each for water and sewerage. Property tax is a 'stable and elastic source of revenue' which must be fully exploited to augment municipal finances. Vacant lands in municipal areas should also be assessed for the payment of property tax as un-built sites at present only deprive the municipal bodies of legitimate revenues but also accentuate the shortage of accommodation. The Committee has called for the abolition of the *octroi* and terminal taxes and says the loss should be made up by allocation of the proceeds of the entertainment and motor vehicle taxes to the local bodies. It has also urged the distribution of Rs 15 crores which the Railways make over to the State Governments in lieu of the tax on passengers, among local bodies. The setting up of a Municipal Finance Commission by the States every five years to review the finances of local bodies periodically has also been suggested. The Committee says that the new conditions arising out of industrialisation and urbanisation and the changes ensuing from economic planning imply that local bodies should function as dynamic institutions for promoting social and economic development of the local community as an integral part of the national development.

Urban growth should be properly planned and controlled and adequate public utilities and community facilities provided in order to avoid haphazard urbanisation. While noting that inefficiency on the part of several local authorities has shaken public confidence in them, the Committee urges that the State Governments must strengthen the organisational and administrative set-up of the local bodies and allocate to them adequate resources. Since the local Government has a 'direct and profound effect' on the working of the democratic system, assistance from the State Government should be of the right quantum as well as the right type 'in order to invigorate and strengthen local bodies'. The Committee has called for rationalisation of controls exercised over local bodies, as 'rigid controls tend to stifle local initiative, delay actions and retard the healthy growth of civic responsibility'. Conditions and procedures for grants-in-aid and loans should also be simplified. The Committee has deprecated the tendency on the part of State Governments to take over more and more local functions and suggested that the statute on local bodies should set out both 'obligatory and discretionary functions' for them.

'WHEAT RUPEES': DATA AND PROBLEMS

THE PROPOSED Indo-American Foundation would be an autonomous Indian organisation, governed by Indian laws and Indians would have a considerable say in determining its policies. The Government's purpose in accepting the

U.S. proposal to form a trust was to 'immobilise' over Rs 200 crores of Indian money that had accrued to the U.S. under P.L. 480 purchases and over which the U.S. Embassy had complete control. This large amount was proposed to be invested in Government securities and the interest on them, estimated at about Rs 9 crores, would be used to finance the Foundation's activities. One of the compelling reasons is to find a way out to use up the huge rupee balances that have been accruing to the U.S. Government as a result of P.L. 480 transactions.

The need for this becomes obvious when one considers the magnitude of these balances held in India by the U.S.A. The position as on 31-3-1966 (since the inception of P.L. 480 in 1955) is as follows:

TABLE 92

'WHEAT RUPEE' OPERATIONS

(Rupees in crores)

Item	*Allocation of receipts from sale of P.L. 480 commodities*	*Expenditure*		*Balances held by the U.S.A.*
	(% of total)	(1)	(2)	(1—2)
Loans and grants to Government of India	79.9	1,094.2	845.4	248.8
Cooley loans	6.7	92.1	44.6	47.5
U.S. uses	13.4	183.8	93.5	90.3
Total	100.0	1,370.1	983.5	386.6

Total receipts as on 31st March 1966 from sale of P.L. 480 commodities amounted to Rs 1,370.1 crores and the amount that accrued at the end of the calendar year was likely to be about Rs 1,880 crores as a result of heavy imports under P.L. 480. Secondly, to the amount of Rs 90.3 crores held by the U.S. for 'U.S. uses' must be added another Rs 208.2 crores, derived from repayment of dollar loans of the U.S. Development Loan Fund (D.L.F.) and Mutual Security Agency (M.S.A.) (which were repayable in rupees), repayment of P.L. 480 loans and the interest earned on rupee loans and deposits. This amount of Rs 208.2 crores have to be added under the head 'U.S. uses', because, when repayments of loans and interest are made, they become 'U.S. use', currency. Thus, as on 31-3-66, rupee balances for 'U.S. uses' in India was Rs 298.5 crores.

A third point to be noted is that the U.S. had stopped giving grants (not repayable) as from May 1966. The amount already given as grants totalled Rs 360.10 crores. If this amount is reduced from the total for loans and grants to the Government of India disbursed so far, that is Rs 845.40 crores, we get the

net amount disbursed as loans, that is, Rs 485.30 crores. This amount, plus interest, will keep on coming back into U.S. account, thus adding to the funds at the exclusive use of the U.S. Government.

In short, what the U.S. holds in India is not only the money earmarked for U.S. use at the rate of 13.4 per cent of total receipts from sales of P.L. 480 commodities, but also the repayments made by India of loans and interest. While these repayments add up to a sizeable sum, much thought has not been given to disbursing them again, because there is still enough money left from original P.L. 480 sale proceeds to be given as loans to the Government of India. As can be seen from the table *supra*, balances held by the U.S. in India which are available to be given as loan to the Indian Government, amounted to Rs 248.8 crores as on 31-3-66.

What are the net rupee balances held by the U.S. as on 31-3-66 and how are they being managed? From the table *supra*, balances held by the U.S. in respect of loans to the Government of India, Cooley loans and U.S. uses amounted to Rs 386.6 crores. To this amount must be added other rupee receipts of U.S. Government (that is by way of repayment of loans and interest, etc.)—Rs 208.2 crores. Therefore, the total rupee balances held by the U.S. Government is Rs 594.8 crores as on 31-3-66. This rose further by the middle of 1967 as more receipts came in from sale of P.L. 480 commodities.

The aforesaid amount of Rs 594 crores was held as follows:

TABLE 93

WHEAT RUPEE HOLDINGS: 1965-66

Item	*Rs crores*
Cash on hand	0.1
Current account at State Bank of India	1.2
Balances at branches of U.S. banks in India	35.0
Reserve Bank of India—Special Securities Account	558.5
Total	594.8

The Reserve Bank, which holds a major share of the rupee balances, invests these funds on behalf of the U.S. in special securities of the Government of India, bearing $1\frac{1}{2}$ per cent interest per annum. What interest the U.S. banks pay is not known. (Incidentally, it may be mentioned here that there have been unconfirmed reports that the U.S. Embassy might officially lend to U.S. banks operating in India a part of the Cooley loan funds available with it. This amounted to Rs 47.5 crores as on 31-3-66). Although the Reserve Bank of India and the U.S. banks are holding these rupee balances of the U.S., these are no doubt utilised by them for their day-to-day transactions.

As per details given in Parliament by the Union Finance Minister, the U.S. Government had spent only Rs 93.53 crores between 1-1-56 and 31-3-66 out of the rupee funds allocated exclusively for 'U.S. uses', which totalled Rs 183.8 crores as on 31-3-66. If aid to Burma and Nepal, amounting to Rs 31.15 crores, is deducted, the net sum spent by the U.S. Embassy on its own uses in the nine years under reference was only Rs 62.38 crores—an average of Rs 7 crores a year. In this way alone, it will take the U.S. long years before it can write off the Rs 1,000 crores or so, that will accrue to it by the end of the year.

What is the remedy then? One solution that was thought of to reduce this mounting rupee balances of the U.S. in India was the establishment of an Indo-U.S. education foundation, which, if formed, would help write off, over Rs 200 crores in one stroke. But then the proposal has been vehemently attacked not only by political leaders, but also by some educationists. Until the details of the proposed foundation are finalised, it would be premature to make any comments, but the criticism that the formation of such a foundation would 'Americanise' the thinking of our future generation carries little conviction.

One might ask these critics in which field American influence is not there at present? Moreover, it might be worthwhile recalling that more than Rs 150 crores of American money (given as grants out of P.L. 480 proceeds) has been spent on educational projects in India so far. Again, as has been pointed out by some protagonists of the foundation idea, the cream of the intelligent youth in India today go to the U.S.A. for higher studies under one scheme or the other.

If the foundation idea is rejected on political grounds, what are the other avenues left to liquidate this excess U.S. rupee balances in India? Mr David Bell mentioned a few escape holes. These are:

(1) Financing exports: In 1961 an agreement was reached on the use of rupees for U.S. Government exports from India to other U.S. missions and offices outside India for such items as furniture up to an average of $10,000 a month;

(2) Air transport: There are agreements which permit payment in rupees for U.S. official air travels and cargo shipments originating or terminating in India. (In this case, presumably there will be a little dollar drain from India in the sense that to the extent all U.S. official air travel is done by an American airliner, this company's business will go up and it has to be allowed repatriation of its profits in dollars); and

(3) Rupee aid for third countries, like Nepal.

Apart from these provisions, conversion of rupee balances into foreign currencies is also allowed to a certain extent. This last item accounted for only Rs 7.18 crores in the past nine years. There was much criticism some time ago about the facility given for sale of rupees to U.S. tourists visiting India. The argument put forward was that this would reduce our foreign exchange earnings. The validity of this argument cannot be denied, but the amount

so far spent on sale to U.S. tourists totalled only Rs 2 lakhs. Does this low figure reveal lack of interest on the part of Americans in visiting India, or does it conceal the fact that U.S. tourists have not availed themselves of this facility in large numbers?

These facilities are not enough to consume the huge rupee balances of the U.S. in the near future. One would not expect the U.S. to write off the whole amount as charity either. Nor is India going to be in a position, in the next few decades, to pay the U.S. in dollars for all the money it holds in India. In such circumstances, these huge rupee balances in American hands can result in suspicion and unfair allegations leading to avoidable friction between the two countries. The concern is not only India's, but the U.S.'s, too. In a nutshell, here is a dilemma which faces both countries. If friction is to be avoided at a later date, it is about time the Indian Parliament laid certain guidelines how best to use the money without detriment to the interests of either country. Will our parliamentarians, who had taken a lively interest in the Indo-U.S. foundation proposal, take the same interest in solving this problem of excess American rupee holdings in India, which, as both parties only too well realise, can be a source of friction? In this context, it is some consolation to know that P.L. 480 rupee proceeds will perhaps stop by the end of this year, as India will have to pay for in dollars for all the food she imports from the U.S.A. in future.

'WHEAT RUPEE' GRANTS: 1966-67

India received Rs 163.6 crores on March 28, 1967 from the United States out of the P.L. 480 rupee funds. This allocation brings the total contribution out of the counterpart funds during the current year to Rs 350 crores. A cheque for Rs 186.4 crores was delivered to the Government some time ago. The allocation of Rs 163.6 crores is out of the line of credit of Rs 288.4 crores sanctioned by the U.S. The balance will be provided in the next financial year. The earlier allocation of Rs 186.4 crores had been provided out of an earlier line of credit. The total of Rs 350 crores provides loan financing for a wide variety of projects in the fields of agriculture, industry, labour, health, education and community development. The loans have been extended from the sale proceeds of agricultural commodities supplied to India under P.L. 480 agreements concluded between the two Governments on November 26, 1962 and September 30, 1964. Agriculture gets Rs 151.6 crores, the largest share of the funds. The All-India Minor Irrigation Programme, which seeks to extend irrigation to a total of 17 million acres during the Fourth Plan, through the construction of wells, the digging of canals, is among the projects included. Other projects are modern storage facilities for food grains, flood control, soil conservation programmes in the catchment areas of reservoirs, and rural electrification. Community development and national extension projects receive Rs 9.5 crores. Other development projects financed include rural public works and rural industrialisation which together receive Rs 11.4 crores. The rural public

works programme seeks to provide work to agricultural labourers during seasons of unemployment and at the same time strengthen agricultural productivity and rural economy. Industrial projects (Rs 77.0 crores) include additional financing for the Industrial Development Bank of India, the Industrial Finance Corporation and the Sabarigiri (Kerala), Talcher (Orissa) and Indraprastha (Delhi) power projects. The transfer of Rs 350 crores in 1966-67 is the largest turnover of P.L. 480 funds to the accounts of the Government of India in any year since the programme began in 1956.

Annexure

STATE FINANCES: A.P.'S REPRESENTATION

The state has strongly urged upon the Fifth Finance Commission to do away with the existing arrangement of additional excise duties on textiles, sugar and tobacco and firmly opposed extension of the scope of levying additional excise duties on other commodities in view of the 'unhappy experience in the past'. The State Government pointed out that no avenues were now left for imposing any fresh taxes and duties within the State's own power of taxation. Despite this, the State undertook to raise nearly Rs 100 crores by way of additional resources mobilisation. The State tax receipts which were 'heavy and crushing' formed a higher proportion of the State income than in other states and if it could not raise still further, 'it is a handicap imposed by the nature on the economy of the State'. In the present functioning of the federal financial structure, the States have ceased to be financially viable and became more and more dependent upon the Central grants and devolutions. This tendency should not be further accentuated in the interests of the strengthening the very system itself. Pleading to do away with the existing arrangement of additional excise duties on certain commodities, 'the sooner it is done away with, the better would it be for all concerned'. Instead, it suggested to the Centre to exploit all the items of taxes and duties enumerated in Article 269 to the maximum extent and pass them on to the States in order to strengthen their resources position. The Government wanted that the State's share of all union excise duties might be fixed at fifty per cent of the net proceeds as against the 20 per cent recommended by the Fourth Finance Commission.

As regards the principles of distribution, it wanted the adoption of an equitable basis not related to other factors. The government reiterated its earlier suggestion that the entire net proceeds should be distributed on the basis of population alone.

On the vexed question of rescheduling of the repayment of debts, the State submitted that repayment of loans on developmental works of irrigation and power should commence only with effect from the year in which these schemes started yielding results. Till the project was in a position to repay itself, the Government wanted only nominal interest at one per cent should be charged. It suggested

a Standing Commission to look into the repayment problem between the Centre and the States to enable settlement of repayment problem in the light of existing conditions. In no case should the total expenditure on repayment of interest be more than 10 per cent of the total revenues of the State, and the repayment of capital not more than about 20 per cent of the capital budget of the State. Repayment of loans on projects like Nagarjunasagar should be spread over 60 to 70 years in very easy instalments. The State Government urged and reiterated its earlier request for taking over the project, treating it as one of national importance. As regards the grants-in-aid, the Government while considering the principles formulated by the previous Finance Commission as 'unexceptionable' suggested special assistance to areas with large populations of scheduled castes and tribes. It also wanted permission to utilise the grants-in-aid to meet a large portion of the revenue component for such States which were not in a position to meet their growing unavoidable commitments. Amortisation of permanent and other debts and consideration for fresh expenditure like increase in pay and dearness allowance due to any general scheme of pay revision and others was also suggested.

STATE FINANCES: 1966-70

There is a certain pattern in the State budgets presented so far. All the 12 State budgets—of Kerala, Haryana, Gujarat, Madhya Pradesh, Tamil Nadu, Mysore, Rajasthan, Assam, Andhra Pradesh, West Bengal, Bihar and Kashmir—show an overall deficit. The deficit ranges from Rs 6.34 crores in the case of Haryana to as much as Rs 50 crores in the case of Assam. Apart from Assam, there are at least five other States with large deficits—Bihar (Rs 42 crores), Gujarat (Rs 29.6 crores), Mysore (Rs 31.59 crores), Madhya Pradesh (Rs 30.09 crores), and West Bengal (Rs 35.36 crores). The overall deficit in State budgets in 1967-68 was Rs 102.6 crores, in spite of the fact that the Central Government had given *ad hoc* loans to enable some of the State Governments to clear their overdrafts with the Reserve Bank. As a result of their improvement in the agricultural output in 1967-68, the 1968-69 budget estimates showed an improvement. Additional taxation and economies in expenditure helped. The overall deficit was expected to be Rs 67 crores. But the deficits in the coming year set a new record—Rs 260 crores. Several State Finance Ministers have not concealed the fact that their intention is to pressurise the Finance Commission to grant them more largess. The interim report of the Finance Commission has disappointed them. This award has provided for only an additional Rs 90 crores for 1969-70 though their revenue gap is as large as Rs 600 crores. Yet the States do not seem to have lost hope. But the attitude is to be deplored. Only three State Governments have so far made some attempts at levying new taxes, Kerala (Rs 2.25 crores), Madhya Pradesh (Rs 6.85 crores), and Rajasthan (Rs 3.30 crores). These are more of a token nature than a serious attempt at reducing the deficit.

It is evident that the political complexion of the State Government concerned has not made much difference to the budgetary approach of the non-Congress Finance Ministers. The leader of the Opposition in the West Bengal Assembly

was right when he pointed out that the criticism against the Centre made by the Chief Minister was not new. Almost the same thing was said by Dr B. C. Roy and successive Congress Finance Ministers. The Kerala Finance Minister and the Tamil Nadu Finance Minister have complained of the limitations on fiscal autonomy for the States, which favoured the Centre with elastic sources of revenue and overburdened the States with expanding administrative functions. There is the familiar call for a re-appraisal of Centre-State relations and re-allocation of funds. The attitude of the Congress-run governments was not very different either. The Gujarat Finance Minister, for instance, wants the Finance Commission to recognise the reality of our non-Plan 'deficit of Rs 18.13 crores', out of the revenue deficit of Rs 20.62 crores, and says that Gujarat should not be made to suffer in comparison with other States which have shown large deficits. No State has yet made a serious attempt to contain non-Plan outlays and waste. The Assam Finance Minister points out that a sum of Rs 66 crores has to be borrowed for meeting the expenditure on revenue account on social service owing to the then prevailing pattern of Central assistance. He, however, admits that there are considerable arrears in respect of taxes under several heads and Government is trying to expedite collection.

Most of the State Governments have pleaded for a larger Fourth Plan outlay. Only the Mysore Finance Minister has indicated that the State Government cannot take a final decision on Mysore's Fourth Plan till the size of the Central Plan, the States' share of additional taxation, etc. are decided. But this has not prevented him from saying that the resources mobilisation target of Rs 115 crores suggested for the State by the Planning Commission is rather optimistic. The Tamil Nadu Finance Minister hopes for a larger central assistance, so that the Fourth Plan outlay of Rs 624 crores proposed by the State can materialise. But this has not deterred the State Government from embarking on dubious schemes like (*a*) the 'one-rupee-per-measure of rice' involving heavy subsidy and (*b*) extension of free education upto pre-university level. The conclusion is, therefore, inescapable that the attitude of State Governments is one of 'heads I win and tails you lose'. Every State has an ambitious plan, but when it comes to mobilising resources, there is a tendency to complain that the State concerned does not get its due share of the Central taxes. For instance, Tamil Nadu wants the Centre to raise its income-tax share from 75 per cent (of the amount collected in the State) to 87 per cent. In the case of excise duty, it pleads for doubling the present share from 20 per cent to 40 per cent. Not for them the risk of swelling the national pool of resources.

If the Central Government is to transfer most of the resources to the States to meet their commitments from where will it get the funds to meet its own commitments and obligations? Is it the States' desire that the Centre should divest itself of the present responsibilities cast on it by the Constitution? Then there is the question of planning. It is clear that unless there is a radical change in the attitude of the State Governments and unless they join with the Centre in its effort, hopes for the Fourth Plan would remain but a pious dream.

Chapter XII

PATTERNS OF AID

The patterns of aid vary largely as a result of historical circumstances. For example, aid to Commonwealth countries in South Asia began with the consortium agreements of the 1950s when a number of industrial countries, under the guidance of the International Bank for Reconstruction and Development (the World Bank), began the system of periodic 'pledges' of financial support. These pledges related to agreed assessments of forward planning requirements in those countries. In Africa, on the other hand, independent Commonwealth countries have continued to receive aid on patterns set before independence and by the various financial agreements concluded on independence. Relatively few non-Commonwealth countries were receiving any aid from Britain in the early 1950s; now the programme of aid embraces over 30 foreign countries.

HOW FINANCIAL PROVISION IS MADE

The Ministry, with its advisory staff and economic planning staff, and in collaboration with other Government Departments concerned, must assess the individual requests for aid in the light of the total demand and the limited resources available. A request for financial aid having been accepted, however, the usual pattern is for an agreement to be signed between governments covering perhaps a total sum over a given period of years or a total sum towards the cost of schemes to be agreed over a given period, and including in some cases provision for expenditure on the cost of local goods and services in addition to goods and services from Britain.

The Overseas Aid Act 1966 confers on the Minister of Overseas Development the necessary power to provide assistance, but does not in itself provide any funds. The financing of the Aid Programme is secured broadly in two ways. First, through annual parliamentary authorisations—'votes'—and supplementary votes during the year, and is thus subject to direct parliamentary approval. There are the votes of the Ministry of Overseas Development itself, covering bilateral financial aid to independent countries, technical assistance, contributions to international organisations and grants and loans to the dependent territories; the colonial Grants and loans Vote is still the source of budgetary aid to dependent territories and other departmental votes finance certain small items. The second way is by Acts of Parliament authorising specific activities and expenditures. These include economic assistance loans under Section 3 of the Export Guarantees Act 1949-1964; certain loans to dependent territories for development purposes; Exchequer advances to the Commonwealth Development Corporation, and contributions to the International Development Association and the Asian Development Bank. The 'Section 3' loans described above are increasingly giving place to loans administered directly by the Ministry of Overseas Development. Virtually all new loans provided on concessionary terms, whether interest-free or otherwise, are now administered by ODM.

THE TERMS OF AID LOANS

RECOGNISING THE growing problem of servicing loans, while maintaining the momentum of development, Britain has progressively eased the terms of its loans to developing countries. The maturities of loans have been lengthened and may now be as long as 30 years. They are normally 25 years for those countries where average incomes are lowest, and 20 years for others. Grace periods where no repayment of capital is required are frequently given, often up to 7 years, not infrequently interest is waived in the case of interest bearing loans for periods of as much as seven years. Since June 1965 interest free loans have been authorised; nine were made in the first half of 1966 and six more were under negotiation. In administering the loan programme the economic position of the country concerned rather than the purpose of the loan is the criterion. Other factors taken into account are the country's efforts to mobilise resources and to use them effectively, and its policy in relation to commercial credit.

PRIVATE CAPITAL

FOR MANY YEARS Britain has been among the foremost capital-exporting countries; since the second world war, her contribution has been largely directed towards the Commonwealth and the sterling area. New private investment in developing countries amounted to about £115 million in 1965. The total value of British investment outstanding in India alone in that year was estimated at £300 million annually. This is a higher rate than Britain's present balance of payments position can justify and the Government, has, therefore, taken steps to reduce the outflow. However, in announcing further voluntary measures to this end in his budget speech in May 1966, the Chancellor of the Exchequer pointed out that they applied to the developed sterling area and not to the less-developed countries.

The Commonwealth Development Finance Company Limited was established in 1953 to assist in the financing on a commercial basis of sound productive development in Commonwealth countries. Its authorised capital is £30 million, of which £26.3 million has been issued. The shares are held partly by industrial and other companies and partly by the Bank of England and other Central banks. In addition to its own contribution, CDFC can organise funds from other sources: this has been done in the case of development finance companies in India, Pakistan and Ceylon as well as in commercial investments in African countries. CDFC played the leading part in the formation of a development finance company in Nigeria.

COLOMBO PLAN

THE COLOMBO PLAN for Co-operative Economic Development in South and South-East Asia was set up in 1950 at a meeting of Commonwealth Foreign Ministers. It seeks to help to develop the economies of the countries in the area and to raise the living standards of their people of reviewing development plans and co-ordinating foreign aid. All aid to and from member countries is considered to come under the plan but is negotiated and administered bilaterally. Annual meetings of the Colombo Plan Consultative Committee provide a forum for the

review of progress and the discussion of aid problems, and the Council for Technical Co-operation reviews technical assistance. Members include 17 of the developing countries of the area—some of whom, like India and Pakistan, are both donors and recipients—and 6 countries from outside the region, Australia, Canada, Japan, New Zealand, Britain and the United States. Since 1950 and up to the middle of 1965, Britain has provided £345 million in aid for the area.

INDUS BASIN DEVELOPMENT FUND

The Indus Basin Development Fund was set up under the auspices of the World Bank in 1960 to finance the construction of irrigation and other works in Pakistan and the development of the Indus Basin following the treaty for the sharing of the waters between India and Pakistan. Contributions pledged so far—from Australia, Britain, Canada, the Federal Republic of Germany, India, New Zealand, Pakistan, the United States and the World Bank—amount to £422 million.

DEVELOPMENT ASSISTANCE COMMITTEE (DAC) OF THE OECD

The Development Assistance Committee (DAC) is a committee of the Organisation for Economic Co-operation and Development (OECD) to which the principal aid-givers belong (including one non-member of the OECD, Australia, but excluding a number of members which do not have formal aid programmes). It provides a forum where aid-givers can discuss common problems and where they seek to harmonise their views: for example, aid-tying for the terms on which aid is given. The committee is a consultative body and does not itself give aid. Its annual report provides the best available statistics for the aid programmes of the Western donor countries.

ASIAN DEVELOPMENT BANK

Articles of agreement of an Asian Development Bank were prepared at a conference of 27 states at Manila in December 1965. The purpose of the Bank is to make long-term loans on commercial terms to member countries in Asia. Its authorised capital amounts to over £350 million, of which about 65 per cent is to be contributed by the 19 member countries from the region and the rest by 12 non-regional members (£70 million by the United States and £11 million by Britain). The Bank came into being in August 1966 when the required number of member countries ratified the agreement.

DISCUSSION ON IMPACT OF FOREIGN AID

Dr V. V. Bhatt's report on the impact of foreign aid is as follows:

The discussion on foreign aid centred round the degree of advance made with regard to the attainment of the plan objectives on self-sustaining basis. One view was that in the light of the initial conditions of poverty and the imperative need to increase consumption to some extent the advance made was satisfactory. The criteria for the advance referred to were: (A) The decline in the proportion of external assistance to investment as well as national income, and (B) the rise in the average saving income ratio from 5.5 per cent in 1950-51 to 9.10 per cent

in 1964-65. It was held that at this rate, it would be possible to attain self-sustaining growth in about 30-40 years. If, however, the expected external assistance did not materialise, then the plan strategy as well as the objectives would have to be changed.

Against this view, it was held that hardly any advance had been made towards the attainment of this objective. The decline in the assistance ratio was not a result of conscious policy decisions. The marginal saving-income ratio had failed to rise even to the level of the average investment-income ratio required for the attainment of plan objectives. This was attributed to the investment pattern as well as the lack of appropriate policy instruments.

Again it was argued that for attaining the targets with regard to import substitution and exports, we have not so far evolved a set of appropriate policies. The lower growth rate than was expected was attributed by some to the terms and conditions governing external assistance; these tended to raise the import-income as well as capital-output ratios.

It was also argued that external assistance had been used to import both technical personnel and complete sets of plant and equipment and this was not conducive to the growth of native talent in the field and the output of the capital goods.

Against the view that external assistance had to play an instrumental role in the development process, it was argued that it was possible to develop without external assistance. It was also held that external assistance had a demoralising effect on politicians and administrators and thus came in the way of evolving a set of appropriate policy instruments. In this context, it was argued that it was necessary to take into account not merely purely economic factors but also the broad socio-political factors into account.

With regard to the role of private foreign capital, it affected the balance of payments as well as import and adaptation of modern technology. It has played a useful role. From the payments point of view, the gross inflow was adequate to meet the outflow on account of current dividend and other payments and capital repatriation. There is no reason why this trend should not continue. If it did, foreign capital by itself would not create payments problems and at the same time would play, as it had so far played, catalystic role in the adaptation and assimilation of modern technology. It was admitted that there were a few cases where there had been 'over-import' of both capital and technology; however, this was not true with regard to most of the collaboration agreements. It was also held that it was not likely that foreign capital would pay for itself from a longer term point of view. Yields on foreign capital were likely to increase and the current outflow could in course of time assume substantial proportions. Further, foreign capital like its Indian counterpart was functioning in the context of a sheltered and secure domestic market and was unlikely to contribute towards an increase in exports. If however, private foreign capital was required for other than balance of payments reasons, it would be self-defeating to put undue Governm ental restrictions in this field.

RICH NATIONS FAIL TO FULFIL AID PROMISES

THE RICH INDUSTRIALISED nations of the world—Western as well as European communist countries—have miserably failed to fulfil the assurances they gave to the developing countries in the matter of increased financial assistance during the first United Nations Conference on Aid and Development in Geneva three years ago. This is the major conclusion emerging from an evaluation of the developments since the last UNCTAD prepared by the secretariat of UNCTAD in Geneva. The UNCTAD secretariat refers to the shortfalls in financial aid in relation to promises in an exhaustive 'pre-conference implementation report' which is intended as a background paper for the second UNCTAD which will meet in New Delhi from February 1, 1968. As a percentage of their aggregate gross national products at current prices, the total net outflow from the Western industrialised countries plus Japan to recipients in Asia, Africa and Latin America fell from 0.87 per cent in 1961 to 0.72 per cent in 1966. The ratio of 0.63 per cent of GNP compares unfavourably with the target of 1 per cent which was agreed to as the minimum desirable ratio at the first UNCTAD meeting.

In 1965, there were three countries which exceeded the 1 per cent target. These were France, Belgium and the Netherlands. The best ratio to GNP, 1.35 per cent was in French assistance, but this too meant a sharp fall from a little over 2 per cent in 1961. France comes out as the top aider in 1961-65 in relation to GNP. The ratio of disbursements of the Communist countries to their gross national outputs is also considerably less than 1 per cent. Another factor operating against the interest of the developing countries is the fact that increases in the prices of goods and services supplied by the developed countries have reduced the value of the total flows of financial resources during the sixties. Increased resource to aid has also tended to raise the prices of goods supplied under the aid programmes above the prices which could have been secured from competitive sources.

The UNCTAD secretariat report comments:

> 'The deterioration in the terms of lending for development purposes has occurred at a time when the external debt problems of a number of developing countries clearly call for a substantial increase in the proportion of grants and a softening of the terms and conditions of loans'.

The outstanding public debt of 97 recipient countries rose from $10,000 million in 1955 to about $38,000 million in 1965. If one were to include estimates of unreported debts and commercial arrears, the debt burdens of the developing countries would work out to more than $40,000 million. If foreign loans are continued at the present average interest terms and if the volume of gross lending is maintained constant at present levels, it is estimated that net lending to the developing countries will fall to zero by 1975 and turn negative afterwards. On the

mobilisation of domestic resources by the developing countries, the UNCTAD evaluation report says:

> 'Despite significant shortcomings, notably in the sphere of agriculture, substantial progress over a broad front has been made by many developing countries. Many of these countries are making better use of their own resources than they were some years ago, and their ability to utilise external resources productively has advanced'.

The evaluation study by the secretariat of the United Nations Conference on Trade and Development decrees as disappointing, the limited measures taken by the industrialised countries of the west to promote exports from the developing countries to the rich consumer markets of the world. Two major recommendations of Geneva in 1964 related to trade in primary commodities and easier access for the manufactures and semi-manufactures exported by the developing countries by providing tariff preferences on a non-reciprocal basis. On both these recommendations, the implementation actions by the rich Western countries fall short of expectations based on intentions expressed in 1964.

The UNCTAD secretariat says that the Kennedy Round essentially turned out to be a negotiation among the developed countries of the west plus Japan and did not substantially improve the access into the rich countries of the manufactured products of the developing countries. It notes the progressive removal of tariffs among the developed nations on a preferential basis, especially with the European Free Trade Association, which has generally reduced the ability of the developed countries' exports of manufactures. The developed Western nations also maintain a number of other direct and indirect non-tariff barriers. The UNCTAD secretariat notes that no action has been reported by the rich countries on the identification of these barriers in conformity with the final recommendations of the first UNCTAD meeting.

U.K.'S FOREIGN AID: 1966-67

BRITAIN'S FINANCIAL AID and technical assistance to developing countries is expected to reach a record £225,000,000 in the current financial year. The figures, given in the White Paper 'Overseas Development—the work in Hand' published recently show an increase of £20,000,000 over the year ended March 31, 1966. This in turn was £15,000,000 more than in the previous twelve months. The two biggest single projects Britain is aiding anywhere are in India. They are the Durgapur Steelworks and the Bhopal Heavy Electricals factory which have absorbed loan amounting to about £65,000,000 and £27,000,000 respectively. About a third of British bilateral aid, of all kinds is disbursed in South Asia, South-East Asia, the Far East and the Pacific (£53.5 million in 1965). During the past year Britain has concentrated on bilateral contribution to internationally organised operations and on special problems of India. Loans to India and Pakistan account for the greatest part of the aid disbursed (£36.1 million in 1965), these loans make

up the British contribution to the international aid operation organised by the World Bank through the two Aid consortia. The Bank also administers an internationally financed development scheme designed to give effect to the Indus Waters Treaty. To the Indus Basin Development Fund the British Government is given £34.8 million out of the total of £504 million subscribed internationally in grants and loans by the Bank and eight countries (£3.7 million was spent by Britain in 1965). The development plans of India and Pakistan, the normal operations of the International Bank's Aid Consortia and all bilateral aid to those two countries were gravely disrupted in 1965. This was due partly to difficulties over foreign aid, but later and most directly to the hostilities that broke out between the two countries. These events coincided with a serious failure of rains, placing a heavy additional burden on the over strained economies of both countries, particularly India. Britain, and most other members of the Consortia, entered into bilateral aid commitments with both countries. Some of the experts provided under Britain's Technical Assistance programmes had either to move away or be delayed in their assignments. Once the threat of famine to India was recognised, the U.S. and others arranged shipments of food grains under aid arrangements. Britain, not being a grain exporter, helped here too by paying some of the shipping costs on food grains from Australia and Canada, for port handling equipment and for commodities needed to maintain local production of essential pesticides. With this external assistance, and in addition £17,000,000 from Britain as an advance on the 1966 aid pledge, India was able to limit the damage caused by the shortage of foreign exchange. By midsummer 1966, meetings of the Indian and Pakistani Consortia had once again been held. Meanwhile pledges, particularly of aid for essential imports needed for maintaining developing industries, are being made to India and Pakistan for the current year. Britain's overall programme of aid has risen steadily over the years and is currently running some 60 per cent higher than at the opening of the development decade in 1960. The economic restraints announced by the Government in July last year impose severe restrictions on overseas expenditure. As part of these restraints, disbursements under the aid programme are to be limited to £205,000,000 in 1967-68. But even so, considered as a proportion of the national income, Britain's aid target compares well with those of other donor countries. The other £19,000,000 was multilateral, representing contributions to the funds made available for development through international organisations. The countries of the independent Commonwealth take by far the biggest slice of Britain's Aid Programme. They received over £90,000,000 in 1965-66. Dependent territories received nearly £33,000,000. Other overseas countries received some 13 per cent of the total £17,900,000 and their share can be expected to increase considerably in the current financial year. More than half the total economic aid, bilateral and multilateral, disbursed during 1965 was in grant form: the proportion of aid given rather than lent has slightly increased. Aid in the form of technical assistance is taking an increasing proportion of the total. Both India and Pakistan have expressed the need for more 'non-project' aid—that is, funds not linked to a particular capital project—if necessary at the expense of

aid for new development projects. This partly results from recent temporary reverse which led to a severe shortage of foreign exchange and caused industrial inventories to be run down and industrial production, particularly in India, to be reduced to an uneconomically low level. But there is also a long-term need for increased 'non-project' aid, which results from the massive industrial investment already undertaken. This is generating increasingly heavy demands for imports needed to maintain economic activity. These cannot be financed on an adequate scale from free foreign exchange resources until increased exports result from industrial investment.

Technical assistance to India and Pakistan amounts in total value to over £1.6 million a year. Much of this goes to supplying personnel and training, with particular emphasis on the training of teachers of English. For this the British Council is supplied with special funds. The Council also supplies books and periodicals and is helping with the supply of multiple copies of scientific and technical text books for university students. Assistance to the Indian Institute of Technology in Delhi is outstanding. The British Government and the Government of India originally agreed to co-operate in establishing a college of engineering and technology as part of Delhi University, and it is from this college that the present Institute, now separate from Delhi University, developed. Britain has undertaken to contribute £650,000 for equipment, over half of this sum being donated by British industry, and has spent roughly £500,000 on the provision of British academic staff and the training of Indian staff in Britain. A special relationship has been established between the Indian Institute and the Imperial College of Science and Technology of London University, whereby the Imperial College has, among other things, helped in arranging the appointments, over the period up to June 1966, of twelve British professors, seven technicians and eighteen experts for short-term advisory visits. The Institute's buildings have been provided by the Government of India which has also provided Indian staff and locally manufactured equipment. Another example of technical assistance is that provided to the newly created centres of advanced studies in India. Gifts of equipment and a programme of exchange visits between twelve of these centres and appropriate institutions in Britain have been arranged. Following a visit by the Ministry's tea consultant in 1964, the Nepal Tea Development Corporation was set up in 1965. Previously neglected tea garden in eastern Nepal have been cleaned and replanted, with the help of British supervisors.

The British Government had pledged a new and increased contribution of just over six million dollars to the world food programme in 1966-68 and has provided emergency aid to India to improve facilities to handle the food supplies contributed by countries with surplus stocks. The Ministry of Overseas Development's adviser on irrigation and drainment attended and contributed a paper to the Irrigation and Drainage Congress in Delhi in January 1966, a Congress which has effectively served to spread knowledge of water development. A management development specialist was assigned by the Ministry to work for five months with the All-India Management Association conducting training in the introduction

of a management development programme in a number of important industrial companies in India. During the past year help has been given to India by the Tropical Pesticides Research Unit at Porton, Wiltshire, which consists of a team of entomologists, chemists, a physicist and an engineer. Three experts were sent to advise the Indian Government's committee on pesticides. The report of the committee and its recommendations, incorporating the work of other British experts, is now being considered by the Indian Government. Britain has amply fulfilled her undertaking, given at the First United Nations Conference on Trade and Development, to try and devote one per cent of her national income to aid, whether by official or private investment. Of the total £205,000,000 of Government aid provided in 1965-66, £186,000,000 was bilateral flowing directly or through the Commonwealth Development Corporation, from the Exchequer to the receiving government or agency.

Since Britain introduced a programme of interest-free loans in 1965 agreements totalling over £80,000,000 have been concluded with nine countries—India, Afghanistan, Ceylon, Kenya, Malawi, Pakistan, Sierra Leone, Turkey and Uganda. Sixteen other countries are negotiating for similar loans. The demand from the developing countries for British personnel increases all the time. Although recruiting has almost trebled in the last five years, new vacancies have increased almost fourfold. Over 5,000 appointments were made in the calendar year 1965 under official or officially assisted schemes. There are now more than 18,000 British men and women serving under official or assisted schemes in developing countries. Concurrently, as the number of people recruited to serve in other countries goes up, the number of students and trainees brought to Britain under the official programmes also continues to rise—from over 2,700 in the calendar year 1964 to over 3,000 in 1965. Of these 155 were commonwealth scholars and 450 teacher-training bursars financed under the Commonwealth Education Co-operation Plan. The remainder were financed under the Regional Technical Assistance Programmes, 1,037 coming from Commonwealth African countries and 649 from Colombo Plan countries. Since the inception of the Colombo Plan in 1951, 7,000 Colombo Plan trainees have gone to Britain.

INCREASES IN U.K. AID LIKELY

BRITAINS FOREIGN AID programme, which has had a £205 million 'ceiling' imposed on it during the current financial year, should be increased fairly substantially in 1968-69 according to the new Minister of Overseas Development. Three factors were likely to lead to an increase next year and the year after. One is the start of special assistance to Singapore and Malaysia to offset the effects of Britain's military withdrawal from the Singapore base. A second factor is the likelihood of an increased British contribution to the International Development Association. Britain has already proposed a 'substantial' increase in its IDA subscription, but a final decision would depend on what other countries contributed.

Finally, as one outcome of the Kennedy Round, Britain is likely to make a bigger contribution to the shipment of surplus foods to developing countries.

So far, Britain's main role in this context has been to provide through other aid-giving countries; but some foods such as dried milk and eggs have been shipped directly as part of the U.K. aid programme. The effect of increases in the allocations for Singapore, the IDA and the surplus food programme, should be to restore the British aid programme fairly rapidly to the level at which it was running before the austerity measures of 1966; and by 1969, officials believe that it may be possible to pierce the ceiling of £226 million, which is the highest which has so far been set for the Overseas Development Ministry. However, much will depend on the nature and timing of aid for Singapore.

The ODM expects that some of its aid to the Singapore Government will be spent directly on public sector projects such as the conversion of the naval dockyard to civilian purposes. But some attempt will almost certainly also be made to assist private industry which is likely to be the most rapidly developing sector of Singapore's economy in the next few years. One way of doing this might be to make loans to the Singapore Industrial Development Fund which would then be used in conjunction with private British industrial investment in the island.

Singapore could also benefit from Britain's $30 million stake in the Asian Development Bank which was established last year and should soon be starting to make loans. It is thought that the ADB could absorb substantially more capital than was originally subscribed to it, but its chances of getting more may be limited by the plans which are currently under consideration for a development Bank in the Caribbean. This was first proposed in the Anglo Canadian U.S. tripartite economic report on the Caribbean published last year. The project is likely to be discussed in more detail at a meeting to be held shortly in Barbados.

Severe cuts in Government expenditure in U.K. (including defence) do not touch overseas economic aid. Rather in the case of Singapore, economic aid has been promised in large dimensions in view of withdrawal of defence forces by 1971.

GROWTH OF FOREIGN INVESTMENTS IN INDIA

AT THE END of March, 1965, foreign investments in the private sector amounted to Rs 935.8 crores of which U.K.'s share was as much as Rs 529.3 crores. However, expressed as a proportion of total investments, a declining trend has been noticeable in recent years, there being a larger inflow of funds from U.S.A. The latter's investments were Rs 193.2 crores and those of others Rs 213.3 crores. It is noteworthy that direct investments in the companies in which U.S.A. is interested were Rs 93.1 crores, Portfolio investments Rs 15.9 crores and official loans Rs 84.2 crores. Out of the total investments of Rs 935.8 crores, direct investments were 613.3 crores, portfolio investments Rs 154.8 crores and official Rs 167.7 crores.

FOREIGN AID AND MIRAGE OF SELF-RELIANCE

WITH EACH PASSING year, official proclamations about self-reliance have been becoming louder and louder. But in practice, our reliance on foreign aid has been increasing from Plan to Plan. The relevant facts presented in the table below are

too clear to need any elaboration. While the figures in respect of the first three Plans indicate the actuals, those in respect of the Fourth Plan represent the expectations of the Planning Commission.

The Fourth Plan document notes that 'the Third Plan was to be treated as the first stage of a decade or more of intensive development leading to a self-reliant and self-generating economy. This perspective has now to undergo some change in the light of the performance of the economy during the third Plan Period, the circumstances following the devaluation of the Indian rupee, and the outlook for the immediate future as it emerges from the Fourth Plan proposals'. Later on the document proposes that 'the economy should reach self-reliance by the beginning of the Sixth Plan period'. But it does not present any concrete plan for the achievement of self-reliance.

On the other hand, any realistic assessment of recent and emerging trends would indicate that the goal of self-reliance could not be achieved in the foreseeable future. This reality cannot be conjured away by the new slogan of 'more aid to end aid'.

TABLE 94

RELIANCE ON FOREIGN AID (Rs Crores)

Plan	*Total Outlay in Public Sector*	*External Assistance*	*External Assistance as % of Total Outlay*
First Plan	2,012	203	10.2
Second Plan	4,600	1,090	23.7
Third Plan	8,630	2,455	28.5
Fourth Plan	16,000	4,700 (a	29.4

(a) At the post-devaluation rate of exchange.

Source: 1. Selected Plan Statistics, December 1959, p. 24 for the First Plan.
2. Third Five Year Plan, p. 95 for the Second Plan.
3. Fourth Five Year Plan—A draft Outline, p. 80 for the Third and Fourth Plans.

FOREIGN AID AND INDIA'S ECONOMIC DEVELOPMENT

SINCE THE END of the Second World War, it has increasingly been realised that development of developing countries is essential for world prosperity, and until the flow of foreign investment thereto is accelerated, there is not likely to be much improvement in the economies of such countries. India too has received foreign aid on a generous scale. Not only are all our imports of capital goods dependent on the availability of aid but a substantial proportion of our maintenance requirements are being met only because of the availability of non-project assistance which at present accounts for over half of the external assistance. The percentage of

imports financed out of foreign aid is continuously increasing from 34.5 in 1961-62 to 46.6 in 1962-63 and to 49.6 in 1964-65. The Finance Minister rightly pointed out in his budget speech that 'with the best will in the world and the utmost effort we are capable of, we still cannot dispense with foreign aid in the near future'.

In the past, we have utilised substantial external assistance for financing our plans which amounted to Rs 1,637 crores upto the end of the Second Plan and to Rs 2,650 crores during the Third Plan period. What is more significant is that the contribution of foreign assistance to our plans has been increasing. Foreign assistance accounted for only 6 per cent of the total investment in the First Plan but it accounted for 21 per cent of the total investment in the Second Plan and for 25 per cent of the total investment in the Third Plan. Table 95 gives the breakdown of the various types of assistance utilized by India. In July 1965, India owed Rs 3,304 crores to foreign countries—Rs 2,409 crores as principal and Rs 805 as interest. The outstanding foreign debt on March 31, 1966 was Rs 2,629 crores and was expected to increase to Rs 3,293 crores on March 31, 1967.

TABLE 95

EXTERNAL ASSISTANCE—AUTHORISATIONS AND UTILISATIONS TO END OF SEPTEMBER, 1965

Particulars	*Authorisations*			*Utilisations*		
	Upto end of Second Plan	*During Third Plan (1-4-61 to 30-9-65)*	*Total*	*Upto end of Second Plan*	*During Third Plan (1-4-61 to 30-9-65)*	*Total*
A. Loans and Credits repayable in Foreign Currency	1,277	2,198	3,475	737	1,525	2,263
B. Loans and Credits repayable in Indian Rupees	245	47	292	119	152	272
C. Grants (excluding those under U.S. Public Laws 480 and 665)	263	82	345	230	78	309
D. Total Loans and Grants (excluding those under U.S. Public Laws) A+B+C.	1,785	2,326	4,112	1,087	1,756	2,483
E. U.S. Assistance under P. L. 480 and 665 and Third Country Currency Assistance.	1,148	316	1,436	550	763	1,313
F. Grand Total	2,933	2,642	5,575	1,637	2,519	4,157

N. B. Totals may not agree due to rounding off.

FEATURES OF AID

Foreign aid is generally authorised on a year-to-year basis and therefore some element of uncertainty is inherent in our plans. We cannot proceed on an assured basis. Most of the aid received by us until recently consisted of loans of short term duration which carried high rates of interest. As a result, India's repayment obligations have increased considerably. Of course, recently there has been a tendency to obtain longer term loans at low interest rates. The average rate of interest came down from 4.3 per cent in the Second Plan period to 2.6 per cent in 1963-64. At present about 10 per cent of the debt is free of interest (service charge being under 1 per cent), another 15 per cent at low interest rates (1-2½ per cent), 51 per cent at medium rates (2½-5 per cent) and the remaining 25 per cent at more than 5 per cent interest. So also, more than half of the loans are for extended periods of 20 years or longer.

Before devaluation, the foreign debt service burden in 1966-67 was estimated at Rs 170 crores. After devaluation, it will amount to Rs 268 crores. Debt service burden of Rs 154 crores in 1965-66 accounted for 19.1 per cent of the years' export earnings. In 1966-67, after devaluation, debt service burden will absorb a higher percentage of our export earnings. The debt service obligation is expected to increase as borrowing continues. On the other hand, even after devaluation, exports do not show prospects of any substantial improvement. Again, most of the aid received is tied aid. If the aid makes it obligatory to buy machinery and equipment from the aid giving country, there is often delay in placing orders and getting them executed. Moreover, the prices charged for goods obtained under these tied credits are higher than prices charged by other suppliers. In the case of the U.S.A., the difference is estimated to be of the order of 30 to 40 per cent. As a result, Indian industries start with an initial handicap in the form of higher overhead cost. There is another disadvantage. The availability of imports under these foreign credits has led to import of some goods which are available in the country itself. The utilisation of aid has also been very slow specially in the case of tied aid, though recently there is an improvement in the pace of its utilisation.

As the Prime Minister effectively pleaded, 'Though in absolute terms, India had received help on a generous scale, yet on a *per capita* basis and relative to other countries, it had been somewhere at the bottom of the list'. But there are some important considerations which should be kept in mind before trying to obtain external assistance. We should raise as large a proportion of the necessary producer goods as possible from within our own country, to avoid the creation of an excessive foreign exchange burden in servicing the foreign debts. As foreign aid depends upon the whims and fancies of the donor countries, any undue dependence upon foreign aid might create serious troubles for any country as is proved by India's experience in the recent Indo-Pakistan tussle. The abrupt stoppage of aid created a lot of difficulties and our economy was virtually disrupted.

There is a limit beyond which we cannot borrow as our capacity to service the debt is limited. To expect an increase in export earnings to cover the debt services charges in addition to the heavy import surplus would be in vain. In fact, the debt burden has increased so rapidly that a good part of the fresh aid is utilised to repay past debts and thus less aid is available for financing development. In the Second plan period, 87 per cent of the aid received by India was available for financing development. In the Third Plan period, the percentage came down to 74 per cent. The Government of India has also been forced to approach the World Bank and other donors for rephasing the past loans. It may be noted that after devaluation, the burden of past debts will increase by 57.5 per cent in terms of rupees. During the Fourth Plan period, the debt service obligations are expected to increase from Rs 1,500 crores to Rs 2,362.5 crores.

There is a definite limit set on foreign aid by the capacity of the receiving country to assimilate the investment. The rate of assimilation depends upon the extent of previous development. A rapid development is inflationary in effect and causes the appearance of balance of payments deficits. The slow utilisation of external assistance authorised so far, inflationary pressures prevailing in the country and the constant balance of payments pressures, all suggest that India has not been able to assimilate the investment already made. Therefore, if the present difficulties are to be avoided, either development must be restrained or strong efforts must be made to find out the necessary finance for the development programmes from domestic resources. We should first carefully estimate our requirements and then proceed to obtain foreign credits with proper phasing.

Even after India agreeing to devalue the rupee in a bid to get foreign aid, the chances of getting the entire foreign exchange component of the Fourth Plan underwritten by foreign countries do not seem to be very bright partly because foreign aid is a matter of politics. There are many more countries seeking foreign aid which may be politically more dependable for the donors. Again, foreign countries are getting concerned about India's swelling foreign obligations. Her chronic balance of payments difficulties have created apprehension about India's capacity for debt servicing and timely repayments. There is not much hope for a large increase in untied aid, particularly because the most important aid giving countries, the U.S.A., the U.K. and West Germany are themselves facing balance of payments difficulties. This must be clear from the fact that the aid pledged by the Aid India Consortium has been continuously falling: $1,295 million in 1961-62, $1,070 million in 1962-63, $1,052 million in 1963-64, $1,028 million in 1964-65 and $1,027 million in 1965-66. Press reports from the U.S.A. confirm that it would not be possible for the U.S.A. to contribute a larger amount to the Aid India Consortium than in the past ($485 million) due to her own budgetary and balance of payments position. The chances of getting aid from the world bank are also not very bright. There has been an increase in the rival claims of the newly developing countries. Again, unless the decision to devalue the rupee is followed by other measures suggested by the Bank in respect of economic policy and programme, the aid from the Bank and its enthusiasm for organising aid from

the India Consortium might be affected. Among the follow-up measures are :

1. India should reduce our dependence on foreign aid to the minimum. This is necessary (*a*) to reduce the element of uncertainty in our planning and (*b*) to avoid the possibility of our being pressurised to bring about changes in our policies. The Fourth Plan has not yet been finalised because the extent of aid that would be available is not yet known. That we had to devalue our rupee to ensure foreign aid for the fourth plan shows the extent to which we can be dictated by our donors if we depend too much upon them.
2. Due to the uncertain prospects of foreign aid, it would be desirable to reduce the size of the fourth plan. If it is done, then our requirements of foreign exchange would be correspondingly reduced, and therefore, our dependence on foreign aid.
3. Attempts should be made to arrange for long term loans on lower rates of interest and to obtain as much untied aid as possible. That will enable India to purchase at the cheapest rate. The U.S.A. has now increased the rate of interest on its development loans from 2½ per cent to 3 per cent.
4. The aid received should be put to the best possible use. To create resources for the repayment of loans, it is necessary to be careful about the direction of their investments. When the borrowed funds go into export industries or into import substitution industries, the necessary resources for the repayment of loans are created. If the foreign aid is utilised otherwise, there are found to be difficulties about repayment of loans. In the past, the assistance received has not been utilised in the best possible manner, which attracted adverse remarks from the donors.
5. Very often it is suggested that we should obtain as much loans as possible from the Soviet Bloc. No doubt, the Soviet aid carries a lower rate of interest, but there are some disadvantages. The period of repayment is only 12 years and the aid is tied. As against this, the loans obtained from Western countries are now for longer terms, most of the aid is untied and the tendency is to advance loans on a very low rate. In fact, some of the loans have been obtained at a nominal rate of interest, and some from Britain absolutely free of interest.
6. To obtain foreign exchange without incurring heavy repayment obligations, it would be better to invite private foreign capital to participate in India's development. Private foreign capital has some concrete advantages. Repayment of the principal is rarely required and the service of debts is limited to interests and dividends. A study made by the Economic and Scientific Research Foundation reveals that the annual outflow on account of capital invested (5.7 per cent as profit distribution and 1.3 per cent as capital repatriation), as against 11 per

cent in the case of official loans (interest charges of 4.4 per cent plus amortization at the rate of 6.6 per cent). Substantial part of the profits may also be reinvested. Profit motive would also ensure a sound choice of projects and a continuous interest in development. Private foreign capital has the additional advantage of bringing in foreign technical know-how. However, the inflow of private foreign capital in India has been only Rs 24 crores per year as against an estimate of Rs 60 crores per year in the Third Plan. Fortunately, there has been a welcome shift in Government policy in this respect and many concessions, reliefs and exemptions have been granted to private foreign capital which is now positively welcome. For example, fertilizer plants will now enjoy full freedom of pricing, sale and distribution for seven years. An assurance against nationalisation and for stability of corporate taxation would go a long way to achieve the desired results.

It must be noted that there is a competition among the developing countries to attract as much foreign capital as possible. If India is to attract foreign capital, the return on capital must be competitive to the return available outside India. If foreign capital is allowed a certain amount of flexibility in the matter of management, amortization of capital and remittance of interest and dividends and to have a flexible pricing policy, India might attract foreign capital on a scale commensurate with her needs.

INDIA'S ACCUMULATION OF FOREIGN DEBT

DURING THE LAST quarter (October-December) of 1966 loan agreements totalling Rs 413.47 crores were signed with foreign countries and institutions, raising the total to Rs 963.04 crores in the first nine months of the current financial year (1966-67). The figure for the previous quarter (July-September 1966) was only Rs 261.75 crores. The figure for April-June was Rs 287.82 crores. According to an official release issued recently, with these commitments the total amount authorised by friendly countries and institutions for India's economic development comes to Rs 4,834 crores. This excludes U.S. commodity assistance (Under PL 480), all grants and the drawings from the International Monetary Fund.

One supplementary PL 480 agreement was signed with U.S. Government on December 23, 1966, providing for the import of approximately 450,000 tonnes each of wheat and milo, valued at $53.28 million. The Canadian Government has also announced additional food aid worth $21 million to help India to meet its immediate requirements in the developing emergency situation. PTI adds: Figures of utilisation of loans and credits as on December 31 are not available. As on June 5, 1966, the date of devaluation, out of Rs 5,253 crores (pre-devaluation) external assistance including PL-480 commodity assistance and IMF drawings the utilisation was Rs 3,901 crores leaving a balance of Rs 1,352 crores. The external assistance comprised Rs 3,720 crores of loans repayable in foreign currency, Rs 1,056 crores of loans repayable in rupees and Rs 476 crores of IMF drawings.

To any one who scans these astronomical figures, the question must occur; the gross National product in real terms limping upwards very slowly, do the plan-mongers have any serious thought of meeting interest and debt obligations according to contract terms, nay, even of trying to succeed in asking for rescheduling of debts in the decades to come 'The miller by the Dee had no debts that he could not pay', but Rudyard Kippling's poem fits the Union Government psychology when he described the Indian raiyat as

'borrowing still on his bidding'.

FOREIGN LOANS AUTHORISED AND UTILISED

The gross requirement of foreign assistance during the current year (1967-68) was placed at $1,313 million by the Finance Ministry at the time of the presentation of the interim budget. Of this amount, while $928 million is expected to be drawn from the unutilised balance of the credits authorised in previous years, the gap of $385 million is expected to be filled by securing fresh credits during the course of the current year. Since we do not earn foreign exchange necessary to service our external debt liabilities, a sizeable part of the gross receipts of external assistance has to be utilised to pay the instalments of loan repayments and interest charges on outstanding loans.

After the payment of amortisation instalments and interest charges ($451 million), the net receipt from external assistance, on the basis of the expected gross receipts, would be $862 million. Table 96 shows the corresponding figures:

Table 96

ESTIMATES OF UTILISATION—RECEIPTS AND PAYMENTS OF FOREIGN LOANS IN 1967-68 (B.E.)

(U.S. Million Dollars)

Item	Gross Receipts	Payments of			Net Receipt (1)—(4)
		Capital	Interest	Total	
	1	2	3	4	5
I. From Credits already authorised:					
1. U.S.A.	433	60	80	140	293
2. U.S.S.R.	81	52	14	66	15
3. U.K.	75	31	23	54	21
4. West Germany	23	23	23	46	−23
5. Japan	40	16	13	29	11
6. Czechoslovakia	31	3	...	3	28
7. Canada	24	1	2	3	21
8. I.B.R.D. (I.D.A)	187	25	25	50	137
9. Others	34	49	11	60	−26
Total I	928	260	191	451	477
II. New Credits expected	385	...	...	...	385
Total loan utilisation expected (I+II)	1313	260	191	451	862

To the extent that the Government of India succeeds in securing the rescheduling of debt repayment, the net receipts will, of course, be larger.

Much depends upon the accrual of new credits ($ 385 million) for which, as yet no firm commitments have been made by the aid-givers. This is indicative of the uncertainty which still surrounds the whole question. The gross requirement of foreign assistance (including loan repayments and direct inflow into private sector) during the Fourth Plan period has been estimated at about $8.9 billion or an average annual inflow of $1.8 billion. During the first year of the Fourth Plan (1966-67), out of the $900 million of non-project aid promised by the Aid-India Consortium, firm commitments were made during 1966-67 for only $650 million. At their recent meeting in Paris, the Consortium has very vaguely agreed on a target of $1,280 million for aid for the year 1967-68. A good deal of the delay in the preparation of the Fourth Plan can be traced to the utter uncertainty of the aid prospects.

With mounting foreign loans, the interest charges and repayments of loans are putting a great burden on our foreign exchange resources. The percentages of foreign loans, received during each of the 3 Plans and during 1966-67 and those expected to be received during the Budget year 1967-68, that were or would be offset by the payment of interest charges and repayment of loans are given below. Countrywise details for 1967-68 are given in Table 96.

TABLE 97

INTEREST PAYMENT AND REPAYMENT OF FOREIGN LOANS

Items	*First Plan*	*Second Plan*	*Third Plan*	*1966-67 (R.E.)*	*1967-68 (B.E.)*
1. Interest payments on foreign loans ($ Million)	29	116	603	168	191
2. Repayment of foreign loans ($ Million)	19	84	649	224	260
3. Total payments against foreign loans ($ Million)	48	200	1252	392	451
4. Total payments due to foreign loans as per cent of foreign loans received during the period (%)	18.8	13.5	27.0	29.6	34.3

The total foreign loans authorised up to the end of March, 1967, amounted to about $9,991 million. The unutilised balance of loans authorised on June 6,

1966, was $2,885 million; it was $1,633 million at the end of March, 1967. The details are given in the following Table 98.

TABLE 98

AUTHORISATION AND UTILISATION OF FOREIGN LOANS TO THE END OF MARCH 1967

(Million dollars)

Country/Agency	*Amount of loans authorised upto end of March, 1967**	*Balance of loans authorised (at post devaluation rate) on June 6, 1966*	*Loans utilised from June 6, 1966 to March 31, 1967*	*Balance of loans authorised (at post-devaluation rate) at end of March, 1967*
1. U.S.A.	4,270	944	781	163
2. U.S.S.R.	1,554	707	31	676
3. U.K.	884	243	114	129
4. West Germany	764	86	48	38
5. Japan	394	154	28	126
6. Czechoslovakia	132	103	11	92
7. Canada	109	40	14	26
8. I.B.R.D./I.D.A.	1,530	460	184	276
9. Others	354	148	41	107
Total	9,991	2,885	1,252	1,633

* At pre-devaluation rate of exchange.

Countrywise details of the authorisation and gross utilisation of foreign loans upto the end of March, 1967 are given in the above table. Countrywise percentage distribution of the total loans authorised and utilised upto the end of March, 1967 is given below:

TABLE 99

AUTHORISATION AND UTILISATION OF FOREIGN LOANS UPTO THE END OF MARCH 1967

Percentage distribution

Country/Agency	*Loans authorised*	*Loans utilised*
U.S.A.	42.8	52.1
U.S.S.R.	15.6	7.7
U.K.	8.8	9.5
West Germany	7.7	8.8
Japan	3.9	3.1
Czechoslovakia	1.3	0.5
Canada	1.1	1.0
I.B.R.D./I.D.A.	15.3	14.5
Others	3.5	2.8
Total	100.0	100.0

AUTHORISED BUT UNUTILISED AID

THE UNUSED carryover of external economic aid at the end of the Third Plan amounted to about Rs 1,830 crores. Every attempt was being made to improve the utilisation of aid on the lines recommended by the committee on the utilisation of external assistance. Loan agreements had been signed with foreign Governments and other agencies for 17 projects included in the Fourth Plan. The U.S. Export Import Bank had provided \$12.75 million for the Diesel Locomotive Works at Varanasi. The U.S. Agency for International Development had provided loans totalling \$85.30 million for power stations, the Beas Dam Project and Operation Hardrock.

The Soviet Union had given 500 million roubles for 12 projects. These included the Bokaro steel plant, the expansion of Bhilai, an aluminium smelting plant at Korba, several power projects and prospecting for oil and minerals. The fresh inflow of foreign investment in the private sector was Rs 44 crores in 1961, Rs 51 crores in 1962, Rs 94 crores in 1963-64 and Rs 95 crores in 1964-65. The Government had taken a number of steps to encourage the inflow. These included repatriation of profits, non-discriminatory treatment and special concessions for investment in the fertiliser industry. The total amount of money deposited in PL 480 funds till March 31, 1967 was Rs 1,652 crores. Withdrawals from the funds for the five months ended February amounted to Rs 19.62 crores.

FOREIGN AID BECOMING MORE LIBERAL IN TERMS

THE INTERNATIONAL Development Association (IDA), an affiliate of the World Bank, has approved a credit equivalent to \$65 million to India. Like the \$150 million credit extended to India last August, the proceeds of the credit announced on 23rd December 1966 will provide foreign exchange for imports of components and materials needed by manufacturers, principally capital goods to maintain and expand production. The Industries which were selected for IDA assistance are those producing commercial vehicles and automotive components, machine tools and cutting tools, electrical equipment tractors, ball and roller bearings, industrial and mining machinery, fertilisers and pesticides and basic non-ferrous metals. The two credits totalling \$215 million represent IDA's contribution to the \$900 million of this type aid being made available during the current fiscal year by the members of the aid-India consortium. This assistance will support measures for the easing of import controls and other policy changes initiated by the Union Government earlier this year. With the introduction of these measures in June, foreign exchange has been made available to many manufacturers in priority industries in more ample quantities than for some time heretofore. Foreign exchange licences for those industries being assisted by the IDA credits had been issued for the equivalent of \$180 million by the end of September 1966. The \$65 million credit will be for a term of 50 years. Repayment of principal will begin from October 15, 1977, after a 10 year period of grace. Thereafter 1 per cent of

the principal will be repayable annually for 10 years and 3 per cent will be repayable annually for the remaining 30 years. The credit will be free of interest but a service charge of three-fourths of 1 per cent per annum on the amount withdrawn and outstanding will be made to meet IDA's administrative costs.

OBJECTIVES OF U.S. AID: MR CHESTER BOWLES

IN THE LAST 15 years, the American people have provided India with $2.9 billion (Rs 2,130 crores) in development loans and $382 million (Rs 294 crores) in outright grants, of which almost $100 million (Rs 75 crores) was for technical assistance and close to $300 million (Rs 225 crores) for project assistance. In addition the United States has delivered $4.1 billion (Rs 3,041 crores) for project assistance. It has further delivered $4.14 billion (Rs 3,041) crores in foodgrains, cotton and other agricultural fibres, one-fourth of which has been in outright grants. Total American aid amounts to $7.3 billion (Rs 5,465 crores). This is about three-fifths of the economic assistance that India has received from the entire world. This assistance has helped India to modernise its railroads, to increase sharply its electric power capacity, to strengthen its educational system, to eliminate malaria practically, to develop India's mineral resources and to stimulate India's industrial growth. Contrary to a recent statement of a high Indian Government official, this aid from America has not been offered at usurious interest rates. 20 per cent of our assistance has been given on an outright grant basis with no repayments, 48 per cent is repayable not in dollars but in Indian rupees which can only be spent in India. The remaining 32 per cent is repayable in dollars, three-fourths of which are 40 year loans with interest rates ranging from three-fourth of 1 per cent to $2\frac{1}{2}$ per cent annually. Why has the U.S. provided India with this massive assistance on non-commercial terms? What does the U.S. want in return? It is sometimes alleged that American aid is given to India to secure India's support for its foreign policy. This irresponsible charge has no basis in fact. The Indian Government has been sharply critical of American policy in Vietnam. India has supported Chinese membership in the United Nations, which U.S.A. has opposed. On many other international issues, the Indian Government has taken positions different from American. If the United States has actually sought to 'buy' Indian support for American policy, it is clear that the effort has been a dismal failure. Other sceptics charge that U.S. aid is designed in some complex, nefarious ways to win India's gratitude. There is no more basis for this charge than for the one cited earlier. Indeed, sometimes it appears that India itself makes an effort to obscure the origin of American assistance. For instance, the 700 ships which in this year alone have delivered U.S. grain into Indian ports are rarely remembered to carry 'American wheat'. When they are mentioned, their cargoes are vaguely referred to as imported wheat. Why then have the American people provided three-fifths of all foreign aid to India? For the past 15 years, American assistance to India has had a direct and clear purpose: it is designed to help India become an economically self-sufficient and politically viable nation. Such an India will make its own massive contribution to world peace by demonstrating to the people of Asia, Africa and Latin America that democracy can achieve

what totalitarianism, either Communist or Fascist, can never achieve: a society both prosperous and free. The objective of American aid is as simple and as straightforward as that.

AMERICAN AID: JOHNSON'S PRINCIPLES

PRESIDENT JOHNSON WARNED that the United States could not afford to see its assistance to developing countries wasted in conflicts. Mr Johnson, who was referring to foreign relations in his State of the Union Message to Congress said, 'over the years, the U.S. and other countries have invested heavily in capital and food for the economic development of India and Pakistan.' He said: 'We are not prepared to see our assistance wasted in conflict. It must strengthen their capacity for self-help. It must help these two nations—both our friends, to overcome poverty, emerge as self-reliant leaders, and find terms for reconciliation and co-operation. The greatest challenge to the human family—the race between food supply and population increase is now being lost'. Mr Johnson said the time for concerted action, on a global scale, to solve this problem has come. He underlined three principles to meet the challenge: First the developing nations must give the highest priority to food production, including the use of technology and the capital of private enterprise. Second, nations with food deficit must put more of their resources into voluntary family planning programmes. Third, the developed nations must assist other nations to avoid starvation in the short run and to move rapidly towards the ability to feed themselves. Every member of the world community now bears a direct responsibility to help bring this most basic human account into balance

RE-APPRAISAL OF INDO-AMERICAN TIES

WASHINGTON BELIEVES that there should be a period during which India and the United States will 'draw apart' from each other with a view eventually to re-establishing a more fruitful, free and stable relationship between them. The U.S. hopes that this drawing apart or disengagement can be accomplished by common consent and be based on a detailed evaluation of the present status of their relationship. Senior policy makers, who hold this view, would prefer to have such a review now that the elections are over. What Washington is apparently thinking of is not a divorce or a break but a politely arranged cooling off period aimed at saving the marriage rather than annulling it. The U.S. feels this to be the prudent thing to do because it feels the frayed edges in the relationship between the two countries during the last year are due largely to the client-customer relationship that had developed instead of the mutually more advantageous tie of interdependence. It is this, the U.S. believes, which has often led Indians to complain that pressures of various sorts are being exerted on India. During the year just ended, there have been several such complaints, Washington was charged with having engineered devaluation; it was held guilty of suspending economic aid when India needed it most and it was said to have asked India to recamp its agricultural policy and let in foreign investors into the fertilizer field. Lastly its action in holding up food

shipments until recently was resented. These resentments originating from non-Governmental sources have, it is believed by U.S. officials, been reflected in Delhi's own attitude to Washington.

One high U.S. official put it this way: 'we are no more interested in making India a satellite of the U.S. than we are in ourselves becoming a satellite of India'. He added that what has to be arrested is the habit of both countries taking the other for granted. What they should instead do is to cultivate 'constituencies' in each other's countries. Sympathy at the people to people level should supplant the more formalistic relationship between the Governments. The recent controversy over food (which is bound to come up again in another few months when the latest U.S. allotment is exhausted) is cited as a case in point. It is said that it is because the ties between the two countries have been conditioned largely by the fact that one is the constant giver and the other the constant taker that irritations have developed on both sides. What is remembered and resented in India is the fact that the U.S. held up $120 million worth of food and not the fact that previous to that the U.S. has supplied over a billion dollars worth of food. It can also be said that what is remembered in this country is that India takes and takes and still criticises the U.S. How precisely this 'drawing apart' is to be accomplished is not known. Presumably this is what Washington wants both countries to examine. If this period of voluntarily induced semi-isolation from each other is not to dislocate the Indian economy, it would also have to formulate how during this period economic co-operation can be maintained.

DISGRACE ON FOREIGN AID

IN HIS SPIRITED address to the National Conference of Editorial Writers, President Johnson put heavy accent on the need for more aid to the developing countries in combating the ancient scourges of hunger, illiteracy, ignorance and disease. 'The rich nations can never live as an island of plenty in a sea of poverty'. Yet in Congress, at almost the same moment, a conference committee was applying the aye to a foreign aid bill that was wretchedly inadequate even before the fund cut was ordered. There is no longer much compassion or courage or honour to be found on Capitol Hill. While the gap between rich and poor nations widens ominously, Congress is providing the smallest aid appropriation since 1957 and threatening to deny American food to those most in need. The House insists on hamstringing administration of the new $7.4 billion Food for Peace programme by barring food to countries trading with North Vietnam or Cuba. This would deny help to starving India unless it cuts off exports of jute to Cuba (for making sugar bags) that earn $600,000 a year in foreign exchange. Congress also has hedged foreign aid with restrictions that will hamper the administration and, worse, extract from the programme almost the last ounce of idealism or humanitarianism.

At the time when needs are soaring, Senate and House have agreed on an appropriation for 1966-67 that dips below $3 billion for only the third time in the twenty-year history of the foreign-aid programme. President Johnson's original

request was inadequate, but Congress has provided half a billion dollars less than he asked and $110 million less than the House originally voted. As a goal for the Development Decade, the United Nations asked richer countries to allocate 1 per cent of their gross national products for aid. Their current contribution is only about six-tenths of 1 per cent. But the American contribution for the year ending June 30, 1967, has been even less, well under one-half of 1 per cent. This is disgraceful for the richest nation on earth, and this niggardly contribution comes from what is supposed to be a liberal Congress. An even more inadequate appropriation will be voted by the next Congress unless the foreign-aid climate can be transformed on Capitol Hill and in the country. There is no evident leadership in Congress, able or willing to attempt such a transformation. Even a mild proposal by Robert F. Kennedy for a committee of four Senators, four Congressmen and four Presidential appointees to make a fresh study of long-range foreign-aid needs, met indifference and hostility. Can President Johnson transform the situation? His speech in New York was only one of many eloquent declarations he has made on the crying need for greater contributions by prosperous countries to the struggling ones. But it has to be said that the foreign-aid programme is in trouble and the foreign-aid appropriation disgracefully inadequate because the President practically abandoned it to its enemies in the past. —*New York Times*

U.S. PROJECT AID: TERMS

THE U.S. AGENCY for International Development informally advised the India Government to submit proposals for American project assistance in 1966-67 by the end of November. Since the beginning of the year, India had signed a number of project and non-project loan agreements with the U.S. Government against previous foreign aid or appropriations authorised by the U.S. Congress. The new U.S. foreign aid act authorises funds for further development loans. It generally takes six to eight months to process a loan application. It would become very difficult to obtain project financing for 1966-67 unless the loan applications are filed by the end of November, 1966. Accordingly the Finance Ministry asked the other Central Ministers to frame proposals for U.S. project aid immediately bearing in mind the following criteria:

1. Aid should be asked for projects for which the necessary project and feasibility reports were either ready or were expected to be ready soon.
2. It should be sought for public sector projects regarding which the U.S. Government would not hesitate to offer aid on a Government-to-Government basis. Any request to the U.S. Government for aid for the petroleum and heavy machinery industries was considered 'embarrassing' to the U.S. Government.
3. U.S. credit should be sought only for projects where there was no 'commingling', that is, where East European credits are not involved.
4. For administrative reasons the U.S. authorities did not like to deal with small projects involving expenditure of less than $2 or 3 million.

SOVIET AID

THE TOTAL AMOUNT of economic assistance given by the Soviet Union to India in the 12 years of economic co-operation between the two countries now exceeds Rs 100 crores. That according to instructions of Government, the delivery of the two Lakh tonnes of wheat recently given as gift to India, was 'urgently done by freight ships as well as by tankers during February and March'. All expenses connected with the delivery of the wheat estimated at about Rs 2 crores were met by the Soviet Union.

As desired by the Indian side, the Soviet ships unloaded the wheat at Bombay, Kandla, Madras, Visakhapatnam, Calcutta and Bhavnagar. Last spring, the Soviet Union in response to Indian requests had presented India with six million kg. of sunflower oil, one million kg. of milk powder, one million kg. of biscuits and various kinds of vitamins, the cost of all of which came to Rs 8 crores. In 1966 the Soviet Union had sold to India such important agricultural goods as ammonium sulphate (176,000) tonnes, Potassium chloride (14,000 tonnes) and Urea (11,500 tonnes). During this year 'the supplies of fertilisers from the Soviet Union to India will be considerably increased'. At present 15,000 Soviet tractors are cultivating Indian fields. A request by Indian firms for supply of 5,000 more tractors was there. The Soviet Union was giving as gift machines and equipment for setting up five large State farms, at a total value of Rs 1.3 crores. 'In all, the U.S.S.R. now assists India in the construction of 68 major industrial, agricultural, scientific and educational projects, out of which 24 have been already completed or put into operation partially'.

The Indo-Soviet agreement on Soviet aid for the Fourth Plan was signed on December 10, 1966. The agreement provides for new State credits totalling 300 million roubles. The total Soviet aid during the Fourth Plan period inclusive of spill-over from the Third Plan, Bokaro Steel project and commercial credits, will be more than 900 million roubles. The projects to be covered by the new credits and taken up immediately are, besides the expansion of Bhilai steel plant to 3.3 million tons, the expansion of Bila Dilla and Kiruburu iron ore mines, coking coal, Korba aluminium, oil expansion and development, aerial survey for mineral exploration, technical education and fisheries. India had asked for a total of 450 million roubles by way of new aid so as to provide also for certain other projects to be taken up in the later part of the Fourth Plan period. These include the north-western oil refinery, lubricating oil plant and copper project. Soviet economic credits in the Second and Third Plans were 250 million and 450 million roubles respectively. The Soviet Union has also agreed to give about 200 million roubles for the Bokaro project.

JAPAN'S AID FOR 1966-67

JAPAN has offered only a 15 million worth, sixth project-tied yen credit to India. This, however, would be in addition to the $45 million emergency commodity loan already announced. These two together would make up Japan's sixth yen credit

to India and the total amount would conform to its past average yearly credit of $60 million. Japan would not exceed the yearly average nor would be able to lower the rate of interest of 5.75 per cent. The credit terms would remain as before.

U.S. NON-PROJECT LOAN OF $132m

A LOAN of $132 million (Rs 99 crores) has been authorised to India by the U.S. to finance the import of commodities, machinery and spare parts. This is the third non-project loan extended to India by the U.S. during the past 12 months. The loan will be repayable over a period of 40 years, including an initial grace period of 10 years. Interest will be charged at the rate of 1 per cent per annum during the grace period and 2.50 per cent thereafter. Last summer, the Aid-India Consortium indicated that its members would extend non-project loans totalling $900 million during 1966-67 to help support the Government of India's general economic development and import liberalisation programmes. The U.S. share of this total was $382 million or slightly more than 42 per cent. With this loan, the full U.S. contribution has been authorised.

The $132 million non-project loan will be used to finance the imports of fertilisers, pesticides, agricultural equipment, machinery and spare parts, special types of steel, chemicals, pharmaceuticals and other essential commodities for a broad range of agricultural and industrial end users. The loan is designed to provide the raw materials and other maintenance imports needed to improve utilisation of existing capacity in a wide range of industries and particularly emphasises support for India's own impressive efforts to increase domestic food production through greater imports of fertilisers, pesticides and other agricultural inputs. American officials in the U.S. pointed out that the resolution's endorsement of $25 million (Rs 18.75 crores) will be used for direct food aid to be implemented immediately and will be shipped to India at American expense. *India will make no repayment for the commodities.*

AID-INDIA CLUB OFFER: 1967-68

THE AID-INDIA consortium agreed on 5-4-1967 an economic and food aid target for India of $1,280 million for the year 1967-68. This will comprise $900 million for non-project untied aid and $380 million in food aid, half of which would be granted by the United States. This figure represents the target agreed upon, and not a definite pledge by members of the consortium. At the end of the meetings, Mr Peter Cargill, Director of the Asian section of the Bank, told the press: 'we have made a lot of progress'. He said that there would be another meeting of the consortium when the representatives of the ten nations are expected to discuss India's request for rescheduling of her external debts. A *communique* incorporating the consortium's decisions was issued. Rescheduling of India's external debt may be a precursor of a meeting of experts in Washington in a few months' time to study this problem in detail. Meanwhile, India is expected to honour her repayment commitments from resources available to her. The qauntum of project aid

is also expected to be discussed at another meeting of the Consortium in a few months' time. India had requested $1,500 million in economic aid with at least $900 million (the same of last year) in untied non-project aid. India will be able to close a gap of ten million tons of food grains in the current 12 months through the India aid consortium. The United States is expected to provide 6,600,000 tons of food grains and Canada will contribute 600,000 tons. Japan and the European members of the 10-nation Consortium, who do not have grain surpluses, will help India through a complex system of aid related to food. The Japanese and European aid will assist India in releasing funds for purchasing the balance of 2,800,000 tons of foodgrains. Before the meeting began, India had secured about 4 million tons of foodgrains, mainly from the United States.

EXTERNAL AID: 1967-68

West German economic aid to India in the Fourth Plan may be half its contribution of 2,600 million Deutsch Marks (Rs 494 crores) in the Third Plan. This is because of the acute economic recession that country is facing at present. Last year, West German aid to India totalled 250 million D.M. (Rs 47.5 crores). For 1967-68 also, an equal amount is likely to be made available, and a formal agreement may be signed between the two countries shortly. It is pointed out that even to maintain last year's aid level, would not be easy, especially in view of the deficit of about 7,000 million D.M. (Rs 1,330 crores) in the Federal Government's current budget.

Assuming that the present aid will be maintained in the next four years, the total aid in the Fourth Plan from West Germany would come to only 1,250 million D.M. (Rs 237.5 crores). It is also learnt that West Germany will not make additional 'matching' provision under the Aid-India Consortium's Food Aid Plan this year. Government officials, however, stress the new 'quick-yielding' pattern of West German aid to India. About three-fourths of the total support this year is expected to be in the nature of non-project aid. This will include 110 million D.M. (Rs 21 crores) of commodity aid tied to the West German market, 30 million D.M. (Rs 5.7 crores) of untied commodity aid and 15 million D.M. (Rs 2.85 crores) as assistance to private industrialists through development banks. The tied commodity aid will include credit for the purchase of fertilisers worth 40 million D.M. (Rs 6.6 crores) from the West German market. The West German Government has also agreed to rescheduling the Rourkela debt of 29 million D.M. (Rs 5.5 crores).

Under an agreement signed recently, Japan formally agreed to give India $38.89 million (about Rs 29 crores) worth of non-project assistance for the second year of the Fourth Five Year Plan which it had pledged at the Consortium meeting in Paris. Over half of the credit ($ 20 million) will be utilised by India for importing chemical fertilisers while the other chief items to be purchased include steel rolls, synthetic fibres, replacement parts, raw material and components. The credit will be repayable in 13 years with a grace period of 5 years at an interest of 5.5 per cent per annum. At the Paris Consortium meeting, Japan had actually pledged $45

million worth of non-project aid for this year. Japan has agreed to reschedule repayment of certain instalments of the first yen credit falling due between September 1967 and next March, and an amount of $6.1 million out of the $45 million has been diverted for the debt relief.

With this agreement, Japan's commitments for non-project assistance for the second year of the Fourth Plan have been concluded. The other commodities which India will purchase this year out of the credit in question are trucks and parts, insecticides, chemicals, graphite products, dyestuffs, pigments, medicinal goods, nylon rope and fibre, zinc, replacement parts and raw materials for the joint Indo-Japanese ventures. Meanwhile, it is learnt that the Japanese Government has already approved suppliers' credits for three more fertiliser projects which are to be located at Kotah, Kanpur and Baroda, the last being an expansion programme of the already established Gujarat State Fertiliser Company. The three projects add upto between $45 to $50 million and it is understood that the Japanese Government has no objection to the entire machinery being imported from Japan. Actually however, it is learnt that some of the machinery required for these projects will be forged in India itself.

The British Government has fulfilled its commitment to lend £19,000,000 (Rs 39.9 crores) to the Government of India—pledged at the Aid-India Consortium meeting last April as an advance instalment of Britain's total aid to India for 1967-68. The first instalment of this promised aid was in the form of a non-project interest-free loan of £7,000,000 (Rs 14.7 crores), an agreement for which was signed in New Delhi on June 19, 1967.

Another agreement for the remaining £12,000,000 (Rs 25.2 crores) was signed in New Delhi on July 21, 1967. The U.K. High Commissioner pointed out that this loan 'is for General Purposes and your Government and mine have agreed that £11,500,000 out of the £12,000,000 total may be used for debt servicing retrospectively. To have agreed to this now while other Governments are still deliberating on debt relief represents a considerable act of faith by the British Government, and I hope that this faith will soon be justified by a general decision to follow suit'. As with other British loans to India in recent years, the new loan will be for 25 years, free of interest, with repayments beginning after the seventh year. Most of the loan will be used to finance service payments which fall due in the first half of the financial year on aid loans given in the years 1958-62. The balance has been given as general purpose aid for the purchase of goods and services from Britain. In addition, as a further measure, Britain has agreed to reallocate to General Purposes some £1,700,000 (Rs 3.5 crores) of past aid loans originally earmarked for projects which has remained undisbursed: this money can therefore be immediately used by India. This makes a grand total of Rs 43.5 crores so far for this financial year.

In the climate of uncertainty that surrounds foreign aid for India's Fourth Plan projects, an uncomfortable question being asked by some creditor nations is what it is doing to get more aid from Moscow and the communist bloc. Another question being raised is whether India is getting any sort of debt relief from the

communist world. These experts feel that the East and the West should share the responsibility for India's economic progress. Even non-project aid, towards which Western capitals have proved more responsive, is beginning to be looked critically by foreign aid officials here as well as abroad. A serious question being asked here by representatives of aid-giving Governments is whether the Indian Government will be able to tide over the current recession even with a good monsoon and crop.

The reorganisation of the Planning Commission has produced a good impression as a sign that the Government wants to come to grips with realities. But it is not clear whether the Government will be able to boost exports to reach its targets. A World Bank mission which visited New Delhi recently failed to get any definite answers from officials on what exports are likely to earn this year. These economic factors are to be considered soon by the Aid-India Club, which proposes to have a formal meeting in November to consider project aid. Some Governments have been pressing for such a session. The question of debt relief is likely to be taken up by members of the Aid-India Consortium in Paris. Further exploratory talks will be held to see whether more steps can be taken to ease the debt burden on New Delhi. Countries which have so far announced debt relief are Britain, Canada, West Germany and Japan; France and Italy are expected to devise measures to provide relief to India, and the World Bank is ready to assist New Delhi in rescheduling its debts.

Mr Whilliam S. Gaud, administrator of the Agency for International Development, warned India that the Johnson Administration would have to impose 'very deep cuts' on foreign aid programmes as a result of actions of Congress. Mr Gaud cautioned Pakistan and African nations also not to expect better performance from Congress during future years either. He said the 50 per cent cut in the agency's development loan fund, as proposed by a Congressional committee, would result in complete elimination of some aid programmes. 'It would impose very deep cuts on our programmes for India, Pakistan and Africa, lesser cuts for Turkey and Korea. It would greatly impair our ability to deal with promising new opportunities for development, such as in Indonesia'. The House of Representatives Appropriating Committee urged that President Johnson's request for 3,400 million dollars in aid funds should be cut by 1,200 million dollars.

The AID chief said the proposed cuts in technical assistance would leave insufficient funds for existing activities. 'Unless we terminate projects now under way, it would leave little or nothing for new activities in agriculture, education or family planning', he declared. Mr Gaud said AID programmes for Vietnam would be 'shortly changed', and aid for security purposes in other parts of Asia, Africa and Latin America would be reduced to dangerously low levels. He warned that 'it will not be easy to persuade Congress to restore these cuts' when the aid battle was carried forward in future debate. Mr Gaud also forecast that in all likelihood foreign aid would not find the going any easier next year than this year.

AID-INDIA CLUB: PRESENT PSYCHOLOGY

INDIA MAY GET some concrete idea how much less than 900 million dollars promised for Import Liberalisation by the World Bank when the Aid-India Club meets. For the Record, the figure may not be untouched but the International Development Association has yet to raise resources to replenish its depleted coffers and a good proportion of the 900 million dollars has to come from the IDA. It also remains to be seen how far the Americans will be able to carry their share of burden, and that will depend on Congress. This year's Consortium meeting may well persuade India that in future rather than rely on the World Bank, India has to depend on bilateral negotiations and on expanding exports to meet its minimum needs. In the beginning of the Bank relationship, India used to receive much support from the Bank for the concept of Aid without strings, the only string being proper utilisation of money raised. The next phase under the leadership of Mr Johnson in U.S.A. administration and Mr George Woods in the World Bank was the assumption by American and International officials of the responsibilities of guiding India's economy, the most disastrous consequence being Devaluation. In the current phase, India continues to receive plenty of advice, but the Bank's purse is going leaner and leaner.

DEBT RESCHEDULING: LATEST FIGURES

THE WORLD BANK has given debt relief equivalent to the principal repayments due by India in 1967-68. As regards other members of the Aid-India Consortium, the question is still under consideration. Canada had agreed last year to waive the payments due under 1958 wheat loan involving 8.7 million Canadian dollars in 1966-67 and 1.3 million dollars in the current financial year. Canada has further agreed to postpone till March 31, 1968, next repayments of principal totalling 0.768 million Canadian dollars due from India in respect of credits given in development projects by the Canadian Export Credit and Insurance Corporation.

Britain had refinanced the debt repayments of £8.2 million last year. In the current year also, Britain has refinanced debt repayments of £11.5 million by granting a fresh interest-free loan payable over 25 years. Last year Japan gave debt relief amounting to $2.5 million. In respect of repayments of the first yen Credit principal, Japan's decision is awaited. Austria had agreed last year to give debt relief amounting to 0.88 million dollars, covering principal due this year. Its decision on this year's due is awaited.

INCIDENCE OF FOREIGN DEBT*

ACCORDING TO THE answer given by the Minister of Finance, Sri Morarji Desai, on 20th July, 1967, to an unstarred question in the Lok Sabha, asked by Sri Sidheshwar Prasad a sum of Rs 354 crores and 74 lacs has been paid by India on foreign loans by way of interest—euphemistically called service charges—from 1954-55 to 1965-66! It was further revealed that a shift towards 'softer' terms of loans had

taken places in recent years, more particularly in the case of loans from U.K., U.S.A. Canada and the World Bank. For instance, since October 1965, British loans carry no interest or service charges. Similarly, in the case of loans from U.S.A., Canada and the World Bank, the rates vary from $\frac{3}{4}$ per cent to $2\frac{1}{4}$ per cent.

The information supplied is, however, misleading in so far as it is silent in regard to the various terms and conditions governing these loans. One of the most significant terms generally is that the loan would be utilised for the purchase of certain capital goods, often specified, from the country concerned. The prices charged for these goods are so unconscionably exorbitant that the ultimate gain to the creditor country far exceeds any possible 'loss' of interest. This gain is further increased by the insistence on transporting and insuring of this cargo by the loaning country's firms. A still further gain to the creditor, not so visible, is the maintenance and promotion of a sphere of influence, economic, political, military and cultural. Foreign loans are thus, from every point of view, utterly objectionable. This Government which it will take us 50 years to repay, has mortgaged the future of the country. The people of this country do not feel bound to honour the immoral terms of such unequal contracts.

THE PROBLEM OF TIED AID

Though Tied aid may not be as valuable as freely convertible types, it is considerably better than no aid at all. The fuss that has arisen upon American insistence on making any replenishment of the International Development Association's dollar resources condition upon a substantial part of the money being spent on U.S. goods, is thus unrealistic. Indeed, the prospects of getting the convertibility principal re-established in this field in the foreseeable future are so remote that it would be far more sensible to devote reforming energies from now on to ensuring that tied aid money brings the fullest possible return for money, including the creation of a form of clearing mechanism through which recipient states could exchange aid lines that other developing countries could use with better effect. The tied aid controversy has of course, been there for a very long time. But it has recently assumed a more explosive character because there have been disquieting indications that it could turn out to be the rock on which the World Bank's 'soft loans agency'—the International Development Association—is finally wrecked. Having committed the whole of the existing funds, the IDA has been asking donor countries to allocate it some more. And one of its main obstacles against its request for permission to pass the hat round has once again encountered—it first drew the attention as far back as July last year—has been U.S. resistance to the idea that donations should be made on the fully convertible basis they have been in the past. Washington has undertaken to step up considerably its annual contribution to the IDA, but on the condition that other nations follow suit, and on the understanding that additional U.S. contributions are in broad terms spent on American goods. It seems hitherto only a very modest part of the dollar funds was spent on American goods. The Indian sub-continent for instance, spends a sizeable part in Britain. The Americans feel that the Balance of

payments under such heavy pressure cannot be allowed to continue. Though considerable efforts were made in the initial post war period to make it a matter of principle that all economic aid to underdeveloped countries must be made on a convertible basis, untied aid is an exception rather than a rule nowadays. It seems a pity that the last stronghold of convertible aid that channelled through the International Development Association—should now have to abandon its fight against the onward march of inconvertibility. But it is hard to see how it could be otherwise, given the way in which the international payments picture has been shaping during the past few years. In particular, with the U.S. at its wits end to know how to reduce its external deficit payments, it was inevitable that the closest consideration should be given at Washington to all possible ways of reducing pressures arising from foreign aid programme. The tying principal already having been extended to cover pretty well all U.S. aid made available on a bilateral basis, it was to be expected that the American authorities would insist upon applying it to the maximum possible extent to their contributions to internationalised aid. It is true that though the U.K. is in a similar plight in the payments sense, the British authorities have favoured the retention of the convertibility principal in respect of funds donated to IDA. But one wonders whether it would have been the same had it not been the case that Britain had received considerably more from this institution's disbursements than it has paid hitherto. The plain truth is that until the international liquidity structure is reinforced to provide all donor countries with more room for manoeuvre efforts to enforce convertibility principal are only going to have the effect of endangering the flow of aid. Though no one can claim that untied aid is more useful to underdeveloped countries than the inconvertible type, it is rarely going to be so difficult as to spend such money to good effect that recipient countries would be better off without it. It would help if the World Bank or the IDA offshoot were to operate as a clearing house through which aid lines could be swapped among underdeveloped countries. It is, of course, often the case that competitiveness of a country's export price varies from variety to variety, with the result that disadvantage to the recipient country of the tying principal will be determined in major degree by the nature of its shopping list. But not all countries have the same shopping lists and money donated from one country may, therefore be sometimes be more valuable to another and *vice versa*. The establishment of an exchange system would not adversely affect the position of the donor countries in any way, while it would make the recipients of their generosity happier.

AN EXAMPLE OF TIED LOANS BURDEN

Some American businessmen and their Indian partners have deprived India of needed parts for trucks, tractors and jeeps, according to a report filed with the U.S. agency for International Development. NAPCO Industries of Minniapolis is blamed for selling the Indians nearly worthless tools for several million dollars in a deal financed by AID. The local collaborators are charged with milking their plant to profit other interests putting numerous relatives on the payroll and wasting

funds on comfortable rent-free lodgings. This is the balance-sheet of NAPCO Bevel Gear of India Ltd., according to AID officials. The big losers are the Indian people, who several years ago should have had a plant producing gears, axles and other parts for vehicle motors. The plant would be saving India's scarce foreign exchange, that now must be spent for these parts. Instead, the country has inherited a factory in Farukabad, 20 miles south of New Delhi, a trickle of production and several law suits. The plant has been shut down since last April, 1967. Experts from AID say that a useful asset can still be salvaged. When the law suits are settled and if more money can be found, they say a profitable plant would be in production.

The story, put together by AID and the report of their private engineer consultant, Mr Harray H. Whittingham, goes like this: A local Coca-Cola distributor, Mr P. L. Kapoor, went to the United States in search of a manufacturing partner. He found Mr Kampelman's NAPCO and, in the words of the Whittingham report, was sold 'a bill of goods'. He agreed to buy NAPCO's gear-making machines, which were to be reconditioned or rebuilt for early use. AID dollars were loaned to Mr Kapoor to pay NAPCO. The Whittingham report says NAPCO kept the best machines for its American plant and failed to recondition properly any of the tools shipped to India. Only less than 15 per cent of these machines can ever service the Indian plant. The Whittingham report calls the appraisal made 'a fantastic overstatement of value' and says 'someone should answer for this useless and flagrant waste of money'. NAPCO of India was forced to recondition its equipment, where parts were short and good mechanics scarce. This ate up time and money and prevented the firm from meeting the demand from local vehicle producers. Indian banks, money lenders and suppliers also gave substantial credits.

The Whittingham report says that NAPCO's Indian partners realised 'they had made a bad deal', so they 'resorted to schemes to get their money back'. The document says the Indians set up dummy firms that overcharged the plant, built a guest house with servants and a car for their rent-free use and padded the payroll with friends and relations. AID officials claim that all this, plus the handsome salaries drawn by the local directors, covered their investment five times over. AID has lost its rupee loan: its \$2.3 million loan was guaranteed by the State of Punjab. So this money cannot be recovered from American taxpayers. Last April AID called in its loan because NAPCO was not meeting its payments. The plant's meagre output was shut off. The company is now embroiled in at least four separate suits involving the American partners, the Indian businessmen, the Punjab National Bank, the Punjab Government and AID. But AID officials are confident that Indian courts will eventually deliver a favourable decision. Then, they believe the Punjab State or some other Government agency can take over the plant and make it work.

A spokesman for NAPCO Industries in Minniapolis said in a telephone interview that the firm had dealt openly and in good faith throughout . . . and had lived up to every one of its commitments. The spokesman added that the economic

failure of the project was not related to the condition of the machinery. NAPCO, he said, has always been and is willing to co-operate with AID and they reputable Indian manufacturer to re-open the Indian plant.

FOREIGN DEBT SERVICE BURDEN

In its annual report for 1968, the World Bank has warned against factors like inadequate increase in exports hard terms of past aid and insufficient volume of current aid. The debt servicing problem of India was among other factors the results of a combination of slow export growth and the relatively hard terms of some past aid. Between 1960 and 1967, India's merchandise exports increased at an average annual rate of merely 2.8 per cent. 'Only during the last 10 years the country has received large amounts of aid on concessionary terms. Moreover, the volume of such aid, while large in absolute amounts, has been too small in relation to her capital requirements. Consequently, India's debt service payments on foreign debt including suppliers' credits, rose from about 15 per cent of merchandise exports in 1961 to about 28 per cent in 1967, adding to the severe constraints on the balance of payments'. India's debt servicing problems had been the major concern in the past of the Aid-India Consortium. In May 1968, the Consortium agreed in principle to provide debt relief of about 100 million dollars or roughly 25 per cent of the debt servicing payments due to Consortium members for each of the three fiscal years beginning April 1, 1968. Further debt relief action may be necessary in the future: However, the long-term solution of India's debt servicing problem depends basically upon the effectiveness of overall economic policies, including policies to expand exports. It also depends on an increase in the volume of aid given on concessionary terms and on an improvement in external market conditions for India's exports. According to the Bank, the debt service payments on public and publicly guaranteed external debt of 92 developing countries increased by about 400 million dollars in 1966 and by about 185 million dollars in 1967. On June 30, 1967, outstanding foreign debt of these countries was 43,627 million dollars and in the same year, the debt servicing burden was 4,075 million dollars. These figures do not include the debt servicing burden on India on account of loans by Communist Countries.

CHAPTER XIII

COMMERCIAL FINANCE

THE RESERVE BANK OF INDIA: GROWTH AND EXPANSION

DURING MORE THAN 30 years of existence and operations, the range of the Reserve Bank's functions have expanded and the size of its operations has grown. Originally conceived with a narrow range of functions and limited scope of powers, the primary duties of the Reserve Bank of India were those of managing the currency issue and regulating money supply, though it was charged with a special responsibility in the field of agricultural credit. The instruments of monetary control and weapons of credit regulation provided to the Bank when it was set up in 1935 were adapted from the law and practice of central banking then prevailing in the Continental Europe, Great Britain and the British Commonwealth, but no consideration was given to the fact that they had little relevance to the conditions and environment in India even of those days. Further, in relation to the commercial banking system, while the Reserve Bank had considerable responsibilities for its health and development, it had to be content with a mere advisory role, for it lacked the powers to enforce its will upon the banking system and as has been convincingly demonstrated by Mr Chintaman Deshmukh in his all-too-brief Kale Memorial Lecture delivered in 1948, lacked the authority to convince the Government on vital issues.

Since very early beginnings, the Reserve Bank made efforts to discharge its special responsibilities for developing co-operative and agricultural credit and integrating indigenous money market with the organised money market, but the efforts did not meet with any substantial success. As early as 1937, the Reserve Bank reported to the Government that in the then financial conditions and the stage of economic development of the country, it was desirable to make the central bank credit available in 'a larger number of ways and with less restrictions'. However, the prestige and authority of the Reserve Bank with the public and the banking system suffered a grievous blow as a result of the failure of Travancore National and Quilon Bank Ltd., in 1939 and the controversy on the Reserve Bank's role in averting the crisis. Moreover the war interrupted its endeavours to assume the leadership of the money market and the banking system by seeking new, additional and comprehensive powers.

The post-war period brought three additional factors that added further responsibilities and new functions to the Reserve Bank. In 1949, the Bank was nationalised and it was reinforced by the Banking Regulation Act. The beginning of planning since 1951 gave a further opportunity to the bank to refashion its functions and working within the framework and the financing pattern of the plans.

The relevant mechanism for regulating currency and credit mechanism has been evolved as a result of considerable experience and experimentation. The

limited scope for open market operations in the peculiar nature, structure and characteristics of our financial markets and the comparatively lesser effectiveness of Bank Rate instrument in leading the structure and pattern of interest rates prompted the Reserve Bank to experiment with variable reserve ratios, selective credit controls, special deposits, moral suasion, formal requests, statutory directives, multiplier rates, net liquidity position and others. Through long experimentation, the Reserve Bank has found that direct controls (directives, suasion and requests) and regulation of access rights of banks into Reserve Bank at various rates of interest (on the basis of net liquidity) are most scientific, most effective instruments of credit control in Indian conditions. The instruments of monetary policy have thus been evolved in the light of the widening range of functions and increasing magnitude of operations of the Reserve Bank of India and of the banking system, but there can be no finality about them. In particular the definitions of the priority sectors and the excessive emphasis on manufacturing sector, even to the exclusion of the distributive (as distinct from speculative) activities need to be considered afresh in the years to come. 1966 has marked some liberalisation in the direction of widening the definition of genuine and productive loan and the year 1967 may witness further efforts in this direction. The point is not merely that the Reserve Bank learns by experience; it is also that the markets and the economy in relation to which the Reserve Bank evolves its instruments and policies also keep on changing and diversifying.

One of the major achievements of the Reserve Bank during the past 15 years has been the institutionalisation of savings and investments and the laying of the framework for an effective and enlarged institutional credit agency for financing agriculture and industry.

The creation and development of money and capital markets and their integration have been major objectives of Reserve Bank's policy in the context of the country's economic development. Yet the task is far from complete. The indigenous money lenders that have eluded a link with the Reserve Bank ever since 1935, still present a tough problem. The company deposits have been regulated but in such a manner that while on the one hand it has caused tremendous agitation amongst the companies, on the other hand an excellent opportunity of developing the company deposit receipt into a sensitive money market instrument has been lost. A sounder banking system consisting of hardly 100 units covering a wider geographical area (more than 65,000 branches in over 2000 centres) and a wider functional range of operations has been evolved. But there are still smaller units. Whole capital base is narrow, resources structure is limited, and operations and management leave much to be desired. Despite the combined effects of mergers, licensing and liquidation policies of the Reserve Bank during the past fifteen years, the most difficult task of evolving about 25 national, sounder, larger and more viable units out of the present 100 and odd mostly regional, smaller and vulnerable units remains for 1967 and for the more distant future. The evolution of the Reserve Bank supervision and control over the banking system has taken place ever since 1949: yet in 1960, the pattern of the failure of Travancore

National and Quilon was repeated in the failure of the Palai Central. Since then, there have been further refinements and improvements in the techniques and effectiveness of supervision, but their achievements are yet to be tested. Deposit insurance has come to stay, but its penetration and coverage is yet shallow and superficial. Control over the branch expansion programmes of banks has become more purposive and meaningful in recent years, but the Reserve Bank still does not have the courage to refuse a tenth bank branch in the small stretch of Linking Road between Bandra and Khar, the suburbs of Bombay. Indeed much has been achieved: yet much more remains to be done in 1967 and in years beyond.

As regards rural and agricultural credit, the Reserve Bank has done much not only to bring about a structural reorganisation of the co-operative credit movement, but it has also vastly enlarged the scope of its financial assistance to the co-operative banks. Yet the quality of co-operative loans has remained poor, there are many substandard loans and considerable diversion of funds for the purpose for which they were sanctioned to a variety of other non-priority, sometimes speculative, sometimes inflationary purposes. More recently, the Reserve Bank has assumed further responsibilities for supervision over and regulation of nearly 1000 co-operative banks under the Banking Regulation Act. The history of the next decade of Reserve Bank's role in strengthening and consolidating the co-operative banking system will in many ways reflect the difficulties, hesitations and lessons of the role of the Reserve Bank in relation to the commercial banking system during the past 15 years.

Another aspect of the problems facing the Reserve Bank of India as it moves into 1967 is that it has emerged as the lender of the last resort, not only to the commercial banks but to the co-operative banks and the term financing agencies as well. The trouble has been that the inflationary pressures of created money sustain the activities of the credit institutions in all the three sectors, quite apart from the created money used to satisfy the Governments demands. The most important task facing the Reserve Bank in the years to come, therefore, does not lie in the sphere of monetary policy nor in the sphere of its promotional functions, but in the direction of its ability to curtail or contain inflationary activities and potentialities of its functions.

R.B.I.'S FIGURES ON 9-12-1966

THE RESERVE BANK's foreign assets increased by Rs 8.43 crores to Rs 204.61 crores during the week ended December 9, 1966. According to the Reserve Bank returns for that week, the Bank's holdings of foreign securities increased by Rs 5 crores to Rs 181.42 crores and balances abroad by Rs 3.43 crores to Rs 23.19 crores. The rise in foreign assets represents export earnings which usually swell at this time of the year. A highlight of the returns is a reduction in the scheduled commercial banks' borrowings from the Reserve Bank by Rs 5 crores to Rs 18.97 crores, reflecting a decline in the pressure of demand for bank credit which had increased at the beginning of the month following advance quarterly income tax payments. Notes in circulation swelled by Rs 66.94 crores to Rs 2,864.04 crores,

notes in the banking department by Rs 5.52 crores to Rs 18.87 crores and the note issue by Rs 72.46 crores to Rs 2,882.92 crores. The surge in active notes is usual in the first half of the month. Rupee securities expanded by Rs 70 crores to Rs 2,499.92 crores. The Reserve Bank's assets in gold coin and bullion remained unchanged at Rs 115.89 crores. In the banking department, the Central Governments deposit declined by Rs 14.92 crores to Rs 103.39 crores, State Governments deposits by Rs 10.34 crores to Rs 5.51 crores, scheduled commercial banks' balances by Rs 8.23 crores to Rs 118.64 crores. State Governments borrowings from the Reserve Bank increased by Rs 5.32 crores to Rs 108.86 crores, following a Rs 5.38 crore increase in ways and means borrowing to Rs 79.67 crores. The Reserve Bank's investments contracted by Rs 107.42 crores to Rs 108.26 crores, while holdings of Treasury bills expanded by Rs 58.23 crores to Rs 327.90 crores.

REFLATIONARY MONETARY POLICY RECOMMENDED BY THE RESERVE BANK

THE ANNUAL REPORT of the Central Board of Directors of the Reserve Bank has emphasised the need for evolving a long-term policy with regard to prices, incomes and costs for which the expected increase in output and incomes in the current year provides a favourable basis. The report for the year ended June 30, 1967, states that the monetary policy could be 'selectively reflationary' within an overall framework of restraint and with the accent on budgetary policy being on elimination of deficits. The basic problem is not only the restoration of stability but the imparting of strength to the economy for the larger effort that is needed, both on domestic investment and on exports.

Therefore, in adapting fiscal, monetary and investment policies to the needs of the immediate future, it is essential to keep in mind continuously the long-term objective of creating 'an environment for all-round and orderly economic growth'. The continuing uptrend in prices makes it essential to concentrate on the ways and means of securing price stability—'and, indeed, of some price reduction in respect of the basic items that enter into the cost of living'.

Some investment in buffer stocks, especially foodgrains, with provision for necessary bank finance, would be desirable, despite the urgency of securing a fall in prices. Chances of a sizeable increase in agricultural production appear at this stage to be good. Industrial production should also show significant improvement over the next 12 months with reasonable improvement in supplies of domestic raw materials and large availability of imported raw materials. The report also calls on industry to supplement these measures by adequate effort for increasing productivity and reducing prices and unit costs. The expected increase in agricultural output and in incomes provides a favourable basis for evolving a long term policy with regard to prices, incomes and costs.

In this context, the prices of foodgrains and of other agricultural raw materials have a crucial role. 'While it is important not to permit a sharp fall in these prices', there is need for some downward adjustment, taking into account particularly the

importance of reducing costs and increasing the competitiveness of Indian Industry in the export market. The stress on food policy at this juncture must be on a vigorous procurement effort both for meeting immediate needs of distribution and with a view to building up a buffer stock for the long run. The current recession will have to be met by offering price reductions and enlarging the market—especially the export market—rather than by curtailing output and employment. In short, although incentive pricing cannot be disregarded either in agriculture or in industry, an appropriate incomes policy should seek an improvement in incomes through increases in productivity all along the line rather than through an increase in prices. Any action that aggravates overall inflationary pressures has to be avoided.

Credit policy for the next busy season will have to take into account the probable overall performance of the monsoon. The range of monetary techniques available to the Reserve Bank has increased considerably in recent years. These instruments of policy will have to be used flexibly to facilitate an increase in production and in exports. The overall limit to fiscal and monetary relaxation, it must be stressed, is set by the availability of real savings, which, in turn, depends on overall economic performance as indicated by the growth of real income and the containment of inflationary pressures. Special stress is needed in this context on getting the maximum results from the investments, both public and private, that have already been made and on creation and maintenance of a climate favourable to a sustained growth of savings and investment. Mobilisation of the real savings of the community will thus have to command high priority in the operations of the commercial banks as of other financial intermediaries.

This calls for an expansion of the banking network, both territorially and to strata of society not yet covered by it, so as to enlarge the area of activity of the organised financial sector. This task will have to be shared by the commercial and co-operative banks whose functions *vis-à-vis* the rural economy must be regarded as complementary rather than competitive. As important as the mobilisation of deposits is the role of the banking system in allocating credit in terms of national priorities. This re-orientation of the policies and procedures of commercial banks has to go hand in hand with closer co-ordination between them, the co-operative banks and the financing institutions. To that end, the assistance and guidance of the Reserve Bank will continue to be available. The report notes that in 1966-67, output of both agriculture and industry increased only 3 per cent. It is important to ensure that the recessionary trends do not spread out or deepen too far so as endanger the longer term prospects of investment and growth.

SCHEDULED BANKS BUSY SEASON CREDIT: 1966-67

The Reserve Bank is keenly watching the trend of seasonal bank credit expansion, especially the turn it will take in April when the need to finance imports is expected to swell the usually large demand for bank credit that emerges that month.

The current busy season has witnessed a sustained and rapid credit expansion to the discomfiture of the Reserve Bank which has already altered the banks to the

danger of unrestrained credit expansion accentuating the pressure on prices. Between October 28, 1966, and March 17, 1967, bank credit expanded by an unprecedented amount of Rs 414 crores against Rs 307 crores in the entire 1965-66 busy season (end of October to end of April) and Rs 407 crores in the 1964-65 busy season.

The Reserve Bank expected the current busy season to close with a Rs 600 crore credit expansion. Even so, if it is now perturbed over the current rate of credit expansion, that is because there has been 'a markedly adverse change' in expectations of agricultural output, as pointed out by the Governor of the Reserve Bank. According to Mr Bhattacharya, there is an imbalance between money supply and real goods, and the credit expansion that has taken place is 'somewhat more than is warranted' by the availability of real goods.

The Reserve Bank has not, however, followed up its gentle warning with any fresh measure to curb credit, and is unlikely to do so in the near future, unless the situation that develops in April threatens to go out of hand. The Reserve Bank has so far sought to keep the banking system on the leash by the gentle warning and a threat to charge a 'very high' penal rate on accommodation in excess of the Bank rate limits sanctioned to the banking system right at the beginning of the current busy season.

The banking system has already tapped the bulk of its Bank rate limits. The Rs 414 crore credit expansion achieved so far has been financed by Reserve Bank borrowings of Rs 125 crores against the aggregate Bank rate entitlement of Rs 130 crores. It should be noted, however, that the State Bank has still a sizeable borrowing reserve with the Reserve Bank. Banks have also resorted to the liquidation of Government securities and Treasury Bills. Such liquidation is of the order of Rs 235 crores. Including other approved securities, the liquidation of investments is of the permissible liquidation—that is, without infringing upon the minimum 30 per cent, net liquidity ration of Rs 330 crores. With additional borrowings and investment liquidation, the banking system, including the State Bank, can, therefore, hope to finance a further credit expansion of just Rs 70 crores or so.

During the current busy season, aggregate deposits of the banking system have expanded by Rs 72 crores against Rs 106 crores in the corresponding period (that is, upto mid-March) of the 1965-66 busy season. The larger expansion last year stemmed mainly from the inflow of National Defence Remittances. Of the deposit expansion that has already taken place, there is little left for financing future credit expansion, after providing 28 per cent, in statutory liquid assets.

But April is a month of heavy Government expenditure and, consequently, records a surge in bank deposits. Thus, Rs 93 crores out of the 1965-66 busy season deposit expansion of Rs 216 crores took place in April, 1966, and Rs 54 crores out of the 1964-65 busy season deposit expansion of Rs 106 crores took place in April, 1965. The Finance Minister has estimated that 1966-67 will close with a budgetary deficit of Rs 350 crores. A sizeable portion of the deficit will have been incurred during March, and on its impact on deposits depends the future course of the busy season and the Reserve Bank's credit policy.

SCHEDULED BANKS' INVESTMENTS PATTERN AND DISTRIBUTION

Reserve Bank of India's annual surveys of the investments of scheduled banks during the past ten years show a more than two-fold increase in the total investments, a shift from Central Government securities to State Government and other trustee securities, a decline in the foreign investments of Indian banks and shift from medium to short term maturity of the investments.

The period of the last decade falls easily into three clearly marked phases. During the first phase covering the period from December 1956 to 1959, the resources position of the banks was quite comfortable, as their deposit resources rose sharply by more than Rs 700 crores to Rs 1,767 crores. The expansion in bank credit, on the other hand, was, however relatively much smaller—it was less than Rs 200 crores. This was reflected in the sharp increase in the investments of banks which doubled in three years. A special factor responsible for this growth investments of banks was the investment by the State Bank of India in the gilt-edged securities of the P.L. 480 counterpart funds placed with it by the U.S. Embassy in India. Neither the surveys nor the other statistical data published by the Reserve Bank give any indication of the size of these special investments or of their place in the maturity distribution of bank investments.

To this extent, the survey results of these three years do not reflect the correct state of affairs.

The date of the annual survey of investments was changed from December in 1959 to March in 1961. The second phase, therefore, covers the period March 1961-63. During this period, the increase in the investments of the banks at Rs 78 crores was modest in comparison with the sharp rise of nearly Rs 300 crores in bank credit.

Apart from this pressure of the credit demands, State Bank of India's investments on account of P.L. 480 counterpart funds were liquidated to the extent of about Rs 90 crores, and the relevant deposits were transferred to the Reserve Bank for investments in Special securities of the Government of India. Allowing for this factor, the actual increase in the investment portfolio of the scheduled banks during the period works out at more than double.

In the third phase, the increases in the scheduled banks' investments portfolios have been modest since 1963, largely on account of the pressure on the resource due to the faster rise in the demand for credit than in the rate of deposit mobilisation. Both in 1963-64 and in 1965-66 the rise in investments was only a little more than Rs 70 crores. The year 1964-65 was the only exception, when the increase was Rs 108 crores. This was once-for-all adjustment to the higher liquidity requirement that come into force from September 1964.

The broad pattern of investment has changed considerably over these ten years, and Table 100 gives only a glimpse of the vast changes that have taken place. The investments in Central Government securities have declined from 70 per cent in 1956 to 59 per cent in 1966. In 1966, fortunately, the distortion on account of P.L.

counterpart funds invested by the State Bank of India is absent from these comparisons. Correspondingly, the share of the investments in State Government and other trustee securities has risen from 15 and 4 per cent to 22 and 12 per cent respectively. The main factor responsible for this shift in the banks' investment preferences is the higher yields obtainable on the State Government securities and relatively easy marketability of the high yielding other trustee securities in comparison with the Central Government Securities.

The yields on State Government securities have always been higher so that for the most part, banks hold a certain proportion of their investments in them as a part of the irreducible minimum. The ups and downs in the level of the investment portfolio are thus brought about by operating upon the Central Government securities, including the Treasury Bills.

Since the surveys show the investments in Government and other trustee securities at their face value, the trends in the market value of the investments do not affect the survey results. In fact, however, considerable, steady and almost continuous decline in the market value of the Government securities have created several complications for the Banks' accounting practices and procedures, apart from making them reluctant to invest more than the absolute statutory minimum in Government securities. Further, banks have to contend with pressures from the various State Governments and local authorities, electricity boards and co-operative central land mortgage banks to invest their limited resources to the maximum extent in these various approved trustee securities. In the past two years, the Reserve Bank told the bankers to concentrate their investments in the Central Government securities and not to submit to the pressures of the State Governments, thus limiting their investments in the State securities to reasonable levels.

The changing maturity pattern of the scheduled banks' investments in Government securities (vide Table 101) show interesting trends. Initially, it must be realised that the changes in the maturity pattern are affected by the maturities of loans issued from year to year, and by the passage of time which shortens the maturities of all existing investments of banks. Over the decade, bank's holdings of securities maturing within one year have risen from 1.3 per cent of their total holdings to 9.4 per cent. In 1962 and 1963, they were as high as 21 and 14 per cent respectively. Bulk of these consist of the securities in which banks had invested long before, and which, by the passage of time, have become due to mature within a year. Banks like to hold securities to their maturity, as far as possible, in a period of rising yields and falling values, because by so doing they could escape depreciation in the capital value of their investments. Information on the Treasury bill component of the one-year maturities is available since 1963. There was a steep fall in them from 5.9 per cent, of the total holdings in 1963 to 0.7 per cent in 1965. The fall may be attributed to their lessening attractions as their yields had gone out of alignment with the rise in the other yields. The partial revival of 'Banks' interest in the Treasury bills during 1966 is attributable to a rise in their yields and to Reserve Bank's advice to the banks.

Bank's holdings of 1-5 year maturities have increased from 35.9 per cent in 1956 to 60.5 per cent in 1966. This is partly because in recent years, the Government had been issuing a medium term—six-to-seven year loan to suit banks' tastes, and banks' investments in such loans come within this category by the passage of time. In contrast, 5-10 year and 10-15 year maturities have come down in banks' holdings from 40.5 to 21 per cent and from 17.6 to 6.3 per cent respectively. In 1951 in fact, banks—some of them at least—were large holders of long-term investments and have, therefore, converted them into short-term holdings. At the end of 1966, nearly 70 per cent of their holdings were maturing within 5 years (Table 100 and 101).

TABLE 100

INVESTMENTS OF SCHEDULED BANKS: UPTO MARCH, 1966

(Rs crores)

Item	*Dec. 1956*		*March 1961*		*March 1966*	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*
I. Investments by Offices in India						
A. Indian Government						
(1) Central	311	70	456	68	600	59
(2) States	66	15	124	18	220	22
(3) Others	1	...	...	...	...	...
Sub-total A	378	85	580	86	820	81
B. Other Domestic Investments						
(1) Other Trustee Securities	16	4	39	6	123	12
(2) Others	21	5	30	4	44	5
Sub-total B	37	9	69	10	167	17
C. Investments in Foreign Securities	4	1	2	1	3	...
Total of I	419	95	651	97	990	98
II. Investments by Foreign Banks (in India)						
(1) Indian Securities	1	...	1	...	...	...
(2) Foreign Securities	23	5	23	3	16	2
Total of II	24	5	24	3	16	2
Total of I and II	443	100	675	100	1,006	100

TABLE 101

PERCENTAGE MATURITY DISTRIBUTION OF SCHEDULED BANKS' INVESTMENTS IN GOVERNMENT SECURITIES

Period		Government Securities Maturing in						Total
		1 year	1–5 years	5–10 years	10–15 years	15–20 years	Over 20 years	
December	1956	1.3	35.9	40.5	17.6	3.3	1.3	100
	1957	2.8	50.0	31.4	11.4	2.8	1.5	100
	1958	8.7	40.5	38.8	8.4	2.0	1.6	100
	1959	12.5	31.7	40.2	11.2	2.3	2.2	100
March	1960	9.9	31.8	42.1	11.7	2.1	2.4	100
	1961	12.2	36.9	36.8	10.8	0.2	3.1	100
	1962	21.4	26.7	38.8	10.0	0.2	3.0	100
	1963	13.9 (5.9)	30.1	44.5	8.2	0.2	3.1	100
	1964	8.5 (2.9)	36.7	44.5	6.1	0.2	3.0	100
	1965	2.9 (0.7)	54.4	33.8	5.7	0.2	3.0	100
	1966	9.4 (2.4)	60.5	21.0	6.3	0.2	2.6	100

COMMERCIAL BANKING PROBLEMS

OVER THE PAST decade and a half, the Indian commercial banking system has successfully adjusted its structure, functions and operations to the dynamic and growing economic and industrial environment of the country.

Even the authorities have acknowledged times without number that the commercial banking system has risen to the occasion for fulfilling its responsibilities and has become much more purposive and flexible. What is more, it had developed both intensively and extensively in order to meet the demands that are made upon it. Both in terms of size and number on the one hand and quality and efficiency on the other the banks have successfully converted the challenges facing them into new and vigorous opportunities.

In this sense, 1966 marks a milestone in the career of the Indian banking system. They have completed one set of tasks but there is not resting on laurels for them. Others, much bigger and more difficult tasks await them in 1967, in the remaining sixties and in the entire seventies. As a part of the grand scheme

to modernise Indian banking, the future now lies in the direction of consolidation within the banking system, integration with the financial system and intensification of operations. An attempt must now be made to strengthen the banks still further, to make the system still more efficient and to answer the most difficult of the questions —whether they make enough money and in the right way.

Despite repeated demands from various quarters for high-powered top ranking commission to enquire into the performance and problems of our banking and monetary system, the government has refused to examine banking. Yet again, despite its varied and a sound achievement, Indian banking may still be found wanting in a number of ways. By British or American standards, even by Continental standards, Indian banks are too small, too weak in capital and reserves, too inadequate in their deposit resources and too costly in their methods of operations. In part the banking systems' continuing weakness and indifference are attributable to the fear of outright nationalisation during the past three to four years.

In bankers' own view, Indian banking had now reached a watershed, and is not moving into a territory where there are no choices. How the Indian economy will perform now in face of uncertainties is not known. Bankers have too far relied largely on inflation and deficit financing to mobilise additional deposits but the question is whether all this is enough. The need for banking reform, not in a piecemeal fashion, but with a view to alter the whole aspect and climate of Indian banking over the next few years is urgent and imperative.

Banking reform in future should have three main aims: to reduce banking costs, to modernise the banks by altering the relationship between the banks and their industrial clients and to evolve new instruments of saving. The aim of the reform should not be merely an improvement of the banking industry; it should lead to major economic benefits.

Every one agrees that Indian banking costs are much higher than those of the banks in the advanced countries. This may partly be explained in terms of the absence of mechanisation or automation to any significant extent. What is worse still there is a total lack of interest in mechanisation and automation. But this does not entirely explain the structure of high costs. The more important reason is that our top bankers and banking executives today may be excellent bankers, but they know very little about modern business administration. Everyday, they are taking hundreds of decisions about personnel matters, location of new branches, pricing of their services, costing of their operations—all without having the necessary data or the equipment for taking accurate decisions. No doubt, they have started cost accounting, operational research, statistical and organisation and methods departments, but neither are these departments respected nor are their services fully utilised. Mostly these departments are set up to keep up with the other banks who have set up similar departments. The top managements have only a hazy idea of what to expect from these specialised departments, and the initiative and enthusiasm of the specialists themselves is lost or deadened in the peculiar structure of traditional staffing.

One of the results is that banks do not generally cost their individual operations. The banks' commission, exchange and interest charges are one of the big mysteries of banking business, nobody seems to know exactly what they are, how they are calculated. Since the banks generally do not and cannot compete on deposits and lending rates, the only way they fight for customers is by adjusting service charges. But since they do not know the cost of their services and operations, they cannot watch or regulate them. In contrast, the American banks have costed each of their operations. They calculated just how profitable various types of banking business are. They keep a close watch on rising costs and are able to control them. They know fairly closely the profits to be expected from each of their operations.

Again banks seem amateurish in opening new branches. They have special departments to deal with these matters but the departments are not adequately trained to spot promising locations or capable enough to get the best out of bank employees. In brief, these departments are incomplete rather than making or implementing them.

If bank costs and their regulation is the first most important task of the banks in future, the second is to modernise the relations of banks with their industrial clients. Following the British tradition, the India banks provide merely working capital finance and do not concern themselves with the basic problems or long-term prospects of industry, beyond what is absolutely essential to protect their own interests and funds. Yet, in practice, the relationship is changing fast. Much of the short-term working capital finance provided to industrial clients is in effect used as long-term funds through rolling over, quite apart from the substantial incursions made by the banks in the field of term-financing. We are still far away from the German or the American model of banks taking up an equity interest in the companies whom they loan, or the East European models where bankers are more of auditors than bankers. Still a time has come for a reassessment of the more intimate and intricate relations between bankers and their industrial clients whose mutual dependence has been increasing in recent years.

A lot of talk is going on regarding the banks' duty and obligation of evolving new instruments of saving and new techniques of deposit mobilisation. There is however, no certainty that banks will be able to push up the rate of personal savings by evolving new techniques or by developing new instruments. Again the Government and the ruling party is talking of larger social control over banking rather than giving the banks the freedom to pursuit the policies best suited to the country according to their own judgement. The banks are being asked, or at least expected to bring about fundamental and far-reaching changes in the Indian financial and monetary habits under conditions over which they have hardly any control.

The basic difficulty of the Indian money market is the lack of an incentive for institutionalised saving, mainly because people who have seen the value of their savings being eroded through large doses of continuous inflation, have little faith left in institutional savings.

From another point of view, integration of the organised and modern banking with indigenous and bazar money markets is becoming more and more difficult and intractable, partly because the gulf between the interest rates in the two sectors has been widening beyond repair, and partly because by denying the company deposit receipts their due status, the authorities are bent upon throwing away a new and vitally effective money market instrument with all its potentialities.

Many bankers are still sceptical that banking reform cannot get very far very fast. But no one can deny that the doors to long-term and far reaching changes in Indian banking have been thrown open.

COMMERCIAL BANKING IN 1967

THANKS MAINLY to the sizeable increase in resources of the banking system in the last few weeks it can be said that member banks were able to avoid a pronounced slowing down in the growth of their deposits in 1967. The additions to the working funds in 1966 were exceptional to some extent as there were large receipts under the National Defence Remittance Scheme. The suspension of this scheme and a reduction in the purchasing power of the population, on account of the severe drought conditions in several parts of the country, were responsible for a less pronounced increase in deposits. Even so, the performance should be considered gratifying as net deposits during the period December 22, 1967 increased by Rs 351.36 crores to Rs 3,698.24 crores. In 1966, they were higher by Rs 460.54 crores at Rs 3,346.88 crores. As there was good use for available funds, cash balances could not be increased significantly apart from the fact that the additions to investments were on a much smaller scale. Thus, investments rose by only Rs 98.60 crores to Rs 1,056.05 crores in the period under reference against Rs 129.45 crores to Rs 957.45 crores. Net advances were higher at Rs 2,664.63 crores against Rs 2,412.77 crores in the previous year. These rose by Rs 307.99 crores to Rs 2,412.77 crores in 1966. Cash balances even declined by Rs 10.93 crores to Rs 223.88 crores. They were higher by Rs 33.38 crores at Rs 234.81 crores at the end of 1966.

The gross income of member banks can, therefore, be expected to constitute a new record as fresh investments also were effected on a more attractive basis. The working results for the current year should make satisfactory showing. It is felt, however, that a further rise in operating expenses will nullify any advantage arising out of a higher level of gross earnings. It is even pointed out in some quarters that the net earnings, after taxation, may be only barely maintained at the level of 1966. The new year will probably witness a faster growth in deposits as efforts are being made to mobilise savings in the rural areas which are expected to be higher because of a pick up in agricultural production. It is difficult, however, to say whether it will be possible to avoid significant changes in the pattern of advances in the coming months with the new regulations relating to the grant of fresh credit to the different classes of borrowers under the policy of social control becoming effective.

During the week ended December 22, 1967, gross deposits increased to Rs 4,042.82 crores from Rs 4,028.31 crores while there was a further rise in advances to Rs 2,684.87 crores from Rs 2,678.76 crores. Borrowings were slightly lower at Rs 3.22 crores against Rs 4.07 crores. Cash balances rose to Rs 335.19 crores from Rs 329.54 crores. The big rise in investments to Rs 1,056.05 crores from Rs 1,035.90 crores is mainly due to the State Bank of India.

This institution recorded a small decline in its deposits to Rs 958.85 crores from Rs 961.76 crores during the same week. Borrowings were higher at Rs 7.53 crores against Rs 7.25 crores. Due to a jump in other liabilities to Rs 68.51 crores from Rs 47.40 crores, investments improved to Rs 353.80 crores from Rs 341.49 crores along with cash balances to Rs 48.05 crores from Rs 44.10 crores. Advances were, at the same time, higher at Rs 582.64 crores against Rs 580.22 crores. Other assets dropped to Rs 63.98 crores from Rs 65.37 crores. The money market is fairly comfortable though the inter-bank call rate was quoting higher at 5½ per cent in Bombay.

The experience of Alkali and Chemical Corporation of India Limited during the year ended September 30, 1967 should be said to be peculiar as the output of polythene and benzene hexachloride was adversely affected by a serious shortage of power alcohol and benzene. The availability of alcohol became difficult due to a sharp decline in the production of sugar in 1966-67 while benzene supplies were inadequate to meet a growing demand. It is expected that in the current year there will be an improvement in alcohol production as a result of the new policy adopted by the Government in respect of the sugar industry. The efforts to overcome the shortage of alcohol to some extent through imports will not be quite helpful as the landed cost is rather high. Mr C. A. Pitts, Chairman of Alkali and Chemical, is, however, hopeful about the long-term prospects. There was a slackening demand for rubber chemicals and paints. But with a stepping up of exports existing capacity is being used effectively. As the company's operating costs are being streamlined, the problems now experienced are only of a temporary nature. It has been indicated that there is a scheme for starting a huge polythene plant in Western India based on ethylene which will be available from the petro-chemical complex. The Government has been approached for the issue of a Letter of Intent for this purpose.

Chemicals and Fibres of India Limited has made spectacular progress since it commenced operations a few years back. In the current year both output and sales are expected to constitute a new record as the expansion scheme for doubling capacity to 10 million lbs. of polyester fibre has been completed recently and the new facilities are being fully utilised. Since there is an unsatisfied demand for the company's products, it is considered advisable to raise further the capacity to 15 million lbs. at a cost of Rs 118 lakhs. The dependence on imported raw materials will be reduced to some extent with purchases of ethylene glycol from indigenous sources. But it may take some time to dispense with imports of di-methyl terephthalate as the petro-chemical complex at Koyali is not taking shape as fast as anticipated earlier. Since there is a growing demand for polyester fibre, there will be

no difficulty in marketing CAFI's production. There is also a scheme for diversifying output by manufacturing polyester film which has good industrial uses especially in electronic components. The required permission from the Government is awaited.

J. K. Steel Limited has declared an ordinary dividend of 10 per cent, taxable, for the year ended June 30, 1967, on a capital increased by the issue of bonus shares in the ratio of one share for every 2 shares held. This works out to 15 per cent, taxable, on the old capital, same as previously.

STRUCTURE OF INTEREST RATES

THE REDUCTION ON interest rates in some leading Western countries in recent weeks has given rise to speculation in money market circles in Bombay and Calcutta about the likelihood of the Reserve Bank reviewing its monetary policy and beating a retreat from dear money. The feeling is somehow persistent that there will be a definite improvement in conditions in the money market during the slack season this year and the Reserve Bank may not be keen on continuing its restrictions in the present form. It is necessary to point out, however, that there can be no strict comparison between the structure of interest rates in the developed countries and those prevailing here and the Reserve Bank has to formulate its policies in a manner which will not make credit very dear and which, at the same time, will result in encouragement to fresh savings.

The expectations of a lowering of interest rates have come about after the bank rate was reduced to 4½ per cent from 5 per cent in West Germany early in January. The Bank of England followed later with a reduction in its lending rate to 6½ per cent from the crisis level of 7 per cent. It was announced on Friday that Sweden had reduced its bank rate to 5½ per cent from 6 per cent and Belgium to 5 per cent from 5¼ per cent. These developments should be considered favourable as with the anxiety of many Western through cheap money, it should be easier to secure foreign aid apart from the scope afforded for reducing interest charges.

In India, however, there may not be any significant change in interest rates for some time as it is felt that savings should be stimulated with the offer of fairly attractive return on investment. But the central banking institution can help industry and trade by liberalising its rediscount facilities and making available short-term credit on a cheaper basis in that event, member banks may be willing to charge lower interest rates for short-term credit. Even during the current busy season, the Reserve Bank has pursued a more liberal policy and member banks are in a position to borrow at the Bank Rate upto a specified quota. There was a system of differential rates in the earlier busy seasons. It should, therefore, be examined whether a lower discount rate could be offered for borrowing against usance bills, as, following devaluation the needs in terms of working capital have considerably increased and during the busy season a fairly high level of stocks has to be maintained. In the process, heavy interest charges have had to be borne

by industrial units. As the efforts to boost industrial and agricultural production should not be impeded by the non-availability of credit on a reasonable basis the Reserve Bank should be prepared to make the necessary changes in its policy in the light of developments in the money market in the coming months.

A further increase in advances of scheduled banks was recorded during the week ended January 27, 1967 to Rs 2,523.17 crores from Rs 2,507.57 crores. Though the demand for funds has been keen in the past few weeks, and in January bank credit has risen by over Rs 95 crores against Rs 45 crores in the corresponding period in 1966, there has been no squeeze in the money market so far and the inter-bank call rate is quoting around 6 per cent in Bombay. It has not been difficult for member banks to meet the needs of their constituents as investments in treasury bills are being utilised for this purpose and deposits also have been showing up well. Thus, there was a decline in investments by Rs 5.86 crores to Rs 931.14 crores even with a larger investment portfolio of the State Bank of India. Gross deposits were only slightly lower at the Rs 3,639.86 crores against Rs 3,642.80 crores. Borrowings rose slightly to Rs 20.31 crores from Rs 18.42 crores. But cash balances were better at Rs 281.33 crores against Rs 278.33 crores.

The State Bank of India has been in receipt of funds from special sources during the same week with other liabilities rising to Rs 37.02 crores from Rs 25.13 crores. There was also an increase in deposits to Rs 837.43 crores from Rs 835.57 crores. Even with an increase in advances to Rs 557.05 crores from Rs 550.67 crores, investments were higher at Rs 294.18 crores against Rs 289.27 crores. Cash balances too were better at Rs 30.26 crores against Rs 28.56 crores. Other assets dropped to Rs 16.89 crores from Rs 18.98 crores.

It was in March 1966 that the Chairman of the State Bank of India touched off a controversy by stating that higher interest rates during the last 2½ years had not significantly helped deposit mobilisation. In fact, he wanted a downward revision of the interest rates, with a view to imparting buoyancy to investment and to reducing the cost of borrowing by the Government. That his view is not borne out by facts is evident from the Statistical Tables Relating to Banks in India for the year 1965. According to these data, deposits of all scheduled commercial banks, which grew by 13.2 per cent in 1963, rose by 14.8 per cent in 1964 and by as much as 16.1 per cent in 1965. The higher growth rates in 1964 and 1965 and that too on enlarged bases are evidently the result of the two successive upward revision of interest rates on deposits in September 1964 and February 1965 following the upward revision of the Bank Rate in these months. It is obvious that any downward revision of interest rates now would do considerable damage to the efforts of banks to mobilise resources in the face of the increasing demand for credit. It is true that the higher interest rates on deposits proved a burden on banks, inasmuch as they had to pay higher rates not only on fresh deposits but on existing deposits as well. This brought about a marked shift of deposits from the low interest range to the higher interest category. According to the RBI data, deposits bearing interest above 1.5 per cent and up to 3 per cent which stood at Rs 659 crores at the end of June 1964 dropped to Rs 44 crores at the end of December

1965. There was also a steep fall in deposits in the interest range above 4 per cent and up to 4.5 per cent from Rs 232 crores to Rs 47 crores between the end of 1964 and the end of 1965. This was accompanied by a sharp rise in deposits bearing interest over 4.5 per cent from Rs 265 crores or 11.5 per cent of the total deposits at the end of June 1964 to Rs 1,294 crores or 45 per cent at the end of December 1965. What is particularly noteworthy is that deposits carrying interest of more than 5.5 per cent which were practically unknown or insignificant till the end of June 1964, swelled to no less than Rs 742 crores or 26 per cent of the total deposits at the end of 1965.

Whatever the effects of higher interest rates on the deposits of the business community and various institutions, their impact on the deposits of individuals was no doubt significant. The demand deposits of individuals which stood at Rs 149 crores at the end of March 1963 rose to Rs 165 crores at the close of March 1965, though their ratio to the group total dropped from 22 per cent to 19.7 per cent. Similarly, savings deposits improved from Rs 359 crores to Rs 485 crores, but their share in the total savings deposits was more or less unchanged at 83 per cent. The time deposits of individuals also swelled from Rs 504 crores or 49.7 per cent of all time deposits to Rs 679 crores or 52.4 per cent. This does not mean that the interest rate is the only mechanism by which banks can mobilise deposits. Much also depends on their services to customers, which of late have been far from satisfactory. Banks should therefore pay attention to this aspect also if they are to stand competition from joint stock companies which offer more attractive rates, particularly for long-term deposits.

A review of the interest rates on small savings deposits is under the consideration of the Government. It has been recommended by the Taleyarkhan Committee on Postal Facilities for Small Savings. From what the Minister of State for Finance, told a meeting of the National Savings Central Advisory Board recently, the Government seems to be having reservations on an upward revision of interest rates on par with commercial banks. It, however, raised larger questions of financial policies and their implications has to be carefully considered in consultation with the Reserve Bank. The burden arising out of an increase in interest rates would ultimately fall on the people and would mean that people should raise additional savings to pay for the rise in interest rates, besides providing current outlay. Mr Bhagat called for an all-round effort to step up savings collections during the Fourth Plan period. He said this target of Rs 1,000 crores was not too high considering the size of the Plan and the policies and programmes included in it to achieve economic self-reliance. The target of small savings collections in the Third Plan of Rs 600 crores had nearly been fulfilled—the collections fell short of it only by Rs 26 crores—despite keen competition by our securities, particularly since April 1965, with high-interest yielding short-term deposits of commercial banks. In 1966-67 the net small savings collections up to the end of October, 1966 were Rs 46.2 crores against Rs 73.4 crores in the first seven months of the previous year. Considering that last years collections included car and scooter deposits amounting to Rs 30.53 crores in Post Office savings bank, collections this year were not materially

different from those of last year. The reports of the two sub-committees set up last May had been received. One was under the Chairmanship of Mr Homi J. H. Taleyarkhan, Minister for Small Savings, Maharashtra, who had recommended control over deposits received by non-banking companies and also review of interest rates on small savings schemes. The second committee, headed by Mr Ambika Sharan Singh, Minister of Finance, Bihar State, had recommended that there should be only one small savings organisation at the district and divisional level and that it should be under the State Government.

SOCIAL CONTROL OF BANKS: ASPECTS OF THE PROBLEM

THE STRESS ON 'social control' of banks in the manifesto and the varus mannerio in which this expression has been interpreted by various responsible leaders have once again hung the Sword of Damocles over the banks. The term 'Social Control' is quite vague. On the face of it, it does not mean 'social ownership', that is, state-ownership. Obviously, it means nothing more than controls. And, as banks are already heavily controlled, it implies tighter and more severe controls. Some senior Congress leaders have also stated that the term 'social control' is broad enough to empower the Government to nationalise banks if it thought it necessary to do so after the elections. The Congress President himself is reported to have explained that 'social control' implies a flexible policy to be acted upon according to the exigencies of the post-election period. All this has only deepened the misgivings of bankers and businessmen about the future. This is not the first time that the issue of nationalisation of banks has been brought to the fore. It has been raised many times in recent years and answered effectively and in great detail. The protagonists of nationalisation, however, have consistently ignored the arguments against nationalisation and continue to voice their demand on obscure theory and political dogma. In the latest election manifesto, for instance, it is said: 'In an economically under-developed society like ours, the very structure of political power and its inter-linking with command over economic resources make it necessary that the commanding heights of economy shall not be in private hands. For, they who hold the levers of economic power will also ultimately run the political apparatus'. It is thus clear that it is the fear of loss of political power that is impelling the party in power to tighten its grip over the banking business and to take it over completely, if need be. This fear, however, is unwarranted. Even now, about one-third of commercial banking is in the hands of the public sector, namely, the State Bank and its Subsidiaries. And this sector has been expanding fast by increasing the variety of services rendered and area covered. As proposed by a former Finance Minister, the Government should concentrate its attention and talent on these banks, instead of spreading them over a wider area by taking over the existing private sector banks in whole or in part. The present dichotomy of Indian banking is well serving the ideals of the Congress Party, namely, a mixed economy under democratic socialism. The competition between the public sector and private sector banks has been for the benefit of the society as a whole by serving to improve the efficiency and scope of banking services. It would be highly

desirable to strengthen it, by giving the managements of both the sectors sufficient freedom for displaying initiative and enterprise.

The public sector in banking is not confined to the State Bank of India and its Subsidiaries alone. There is the Postal savings bank playing a significant role in gathering the savings of the growing number of small savers. The entire Postal savings deposits, amounting to about Rs 641 crores as on 31-3-1966, are being utilised by the public sector. Then, there is the industrial banking, the major portion of which is in the public sector. The Industrial Development Bank of India, the Industrial Finance Corporation of India, and the State Financial Corporations are all in the public sector. Then, there are the Agricultural Refinance Corporation, the Film Finance Corporation, and above all the Unit Trust, the latest financial enterprise of the Government of India. Through all these institutions, the total resources of which are about Rs 360 crores, the Government is exercising a powerful influence over the private sector, more so because the capital market continues to be dry. The State's share in banking business is thus far bigger than is generally imagined or realised. If one were to take into account the L.I.C.'s role in institutional finance, it must be conceded that the State is already in possession of quite a few commanding heights of the economy. It would be superfluous to add more to them. If however, in their wisdom the powers-that-be proceed to nationalise the remaining banks in the private sector or add to the numerous controls on their operations, they cannot escape the criticism that contrary to their recent claims of liberalism and pragmatism, their thoughts and actions are dominated by a dangerous socialist doctrinarism that will ultimately usurp democracy in favour of some form of dictatorship. It will be a case of power whetting the appetite for more power and yet more power. In this context, it will be worth recalling what Lord Hailsham has said in his book entitled 'The Case for Conservatism': 'Socialism aims at the concentration of power, political and economic, in the hands of a few political chiefs. The arguments for it are the arguments which have been used for dictatorship from time immemorial—efficiency, national crisis, the protection of the multitude of common man against the power of the wealthy or influential, the efficient redistribution of wealth or the like. The socialist is not content with control. He must have ownership'. One who reads the election manifesto of the Congress Party will readily admit the aptness of the foregoing quotation. It may be noted in passing that nationalisation of banking in the post-war era has been mostly in countries (as, for example, U.A.R., Burma and Indonesia) where democracy had ceased to exist or existed only in name.

At present, the controls over banking are so pervasive that there is hardly any scope for adding to them without running the risk of seriously hampering their efficient and economical working. If any change is called for, it is in the reverse direction, namely, relaxation of controls. The Reserve Bank has such a complete hold over the banks that social controls are already obtaining in full measure. Even a brief listing of these powers substantiate this point:

1. *Control over management:* The Reserve Bank of India can remove the chairman or any director of a bank, appoint its own nominees on the

board of directors, dictate the terms and service conditions of the chief executives, approve or disapprove of the persons chosen for these positions, or dismiss them and appoint a person of its own choice.

2. *Supervision:* The Reserve Bank is empowered to inspect a bank thoroughly and without previous notice. It can order banks to rectify actions which it considers unsound, unsafe or anti-social. It keeps a close watch over advances of big amounts and its prior consent has to be obtained for advances of Rs one crore and over to any one borrower.
3. *Regulation of expansion:* The opening of branches by banks is subject to the Reserve Bank's policy and permission. In recent years, the Bank has made effective use of this instrument of control for extending banking services to unbanked areas. Likewise, it can promote amalgamation and merger of small banks with medium and big banks as part of its drive for eliminating sub-standard banks. Equally, it can refuse or permit amalgamation of banks, if, in its judgement, such amalgamation is not in the interests of the public or the depositors.
4. *Prevention of concentration:* By drastically restricting the voting right of an individual shareholder (to only one per cent of the total voting rights of all shareholders of a bank), concentration of ownership of banks in a few hands has been prevented. There are provisions in the banking law for prohibiting interlocking directorships, for preventing control of non-banking companies, for checking abuse of power and misuse of funds, and for limiting advances to chairmen, directors, etc.
5. *Credit Control:* Under the monetary policy, the Reserve Bank regulates the rates of interest on deposits and advances, as well as the proportion of deposits that can be used for giving loans and advances. No less than 28 per cent of deposits has to be kept in liquid assets, including investments in Government securities. Again, by regulating the cost and availability of central banking credit, the capacity of banks to create credit is sought to be controlled. The purpose for which loans can be given and the margins to be maintained are also subject to the Reserve Bank's control.

In short, there is no aspect of banking activity which is beyond the control of the Reserve Bank and through it the Government enjoys the rights of ownership without having any of the responsibilities involved in actually owning the banks. It is important to note here that the aforesaid powers conferred on the Reserve Bank are not merely on paper, but are in active use.

It is naive to argue that banks in the private sector are making huge profits and that, by nationalising them, the Exchequer can be enriched significantly. The operation of the controls enumerated *supra* automatically determines and restricts the scope for making profits. Besides, the cost of staff—one of the major items of expenditure—is determined by the awards by Tribunals, and, in these days of high and ever rising cost of living, it tends to narrow down the profit margin.

Of the profit made after all expenses, the state takes away the lion's share by way of taxation and, of the balance, 20 per cent has to be earmarked, according to law, for strengthening the reserves. To the extent dividends are liable to dividend tax and are taxed in the hands of recipients, the share of the Exchequer in the profits made by bank is enhanced. The net gain to the State as a result of nationalisation may thus be insignificant. Indeed, there could even be a net loss for several years to come, if one were to take into account the interest payable on the capital locked up by way of compensation to shareholders of banks.

The charge that a handful of rich businessmen control the banks' operations and wield enormous economic power is not true. Each bank has thousands of borrowers and there are no less than 76 scheduled banks, of which 68, having over 4,000 branches, are in the private sector. It is just a figment of imagination to say that all of them are controlled by a few people. In actual fact, banking operations in this vast country constitute a highly decentralised business, with power for taking decisions being exercised by thousands of officers spread all over the country. But the reverse will be true in the event of nationalisation, for power will be centralised in the hands of directors of a single corporation, resulting in concentration of vast economic power in the hands of a few people. This may provide the opposition parties with immense opportunities for making all sorts of allegations, thereby endangering the future of the Congress Party itself. That apart, every borrower will be at the mercy of bureaucrats and those who need large advances will have to dance to the tune of powers-that-be. Depositors will experience the blessings of post-office socialism. Nationalisation may also result in the loss of flexibility and scope for initiative and enterprise, characteristics which are vital for a vigorous expansion of banking business.

Much is made of the banks' advances to companies under the management and control of their respective directors and their associates. Leaders of trade and industry are on the boards of banks because their first hand knowledge and practical experience of the spheres of their activity are vital for the successful working of banks. Surely, their concerns cannot be denied bank credit, simply because of their presence on the boards of banks. Moreover, these concerns are allowed to exist and expand under the Government's industrial policy and plans: they are making valuable contributions to the creation of national wealth and provide employment to a large number of people.

There is in any case no secrecy about advances given to directors and director-controlled companies. These advances are subject to the Reserve Bank's control and have to be disclosed in the balance-sheets of banks. They are made in the ordinary course of business. The vast majority of these borrowers are of such first class credit-standing that no bank would like to miss them. This explains the fact that, even in the public sector banks, advances to director-controlled companies is a regular feature of their business. In any case such advances are not so large as is made out by the critics, being only about 11 per cent in the case of scheduled banks in the private sector and 26 per cent in the case of public sector banks.

The argument that nationalisation of banks is necessary for the successful implementation of the Fourth and Fifth Plans is without substance. The Banks in the private sector have not lagged behind those in the public sector in mobilising the savings of the people. Nor are their resources remaining idle or ungainfully utilised. As already stated, the disposition of banking resources is dictated by the Reserve Bank of India and they are being so invested as to serve the Government's development objectives. Despite these limitations, the scope for expanding and diversifying the role of banks in keeping with needs of the economy is constantly engaging the attention of bank managements both individually and collectively.

Prominent among the reasons given for justifying the demand for nationalisation of banks are two: (1) the banks in the private sector are neglecting the credit needs of small industries; and (2) they do not bother about financing agriculture at all. The assumption here is that, once banks are nationalised, these sectors will get liberal credit and progress faster. Whether this assumption is correct, events alone can tell, but if the experience of the State sector in banking is any guide, it takes too many things for granted. The problem bristles with many practical difficulties the solutions for which do not rest in the hands of banks alone. The State Bank of India and its seven Subsidiaries were brought into being as part of an ambitious integrated scheme for institutionalising rural credit and relieving the farmers from the clutches of usurious money lenders and for giving a fillip to small-scale industries. Although this part of the scheme has been in operation for a decade now, its progress so far has not made any significant impact on the problem. Here is a striking evidence of the immensity of the problem and of the limitations to what commercial banks can do in this sphere in spite of best possible efforts and intentions. The main handicap in lending to these industries lies in the difficulty of assessing the creditworthiness of individual borrowers and the economic viability of their activities. The risks that banks take, it is needless to add, have to be consistent with considerations of safety and liquidity, for after all the banks are only trustees of the people who keep their money with them. Despite this handicap and the high cost of operating small accounts, the banks in the private sector have in recent years been stepping up their advances to small industrialists and their record does not compare unfavourably with that of the State-owned banks. According to such figures as are available, the outstanding advances of scheduled banks other than the State Bank of India to small-scale industries were Rs 55 crores as at the end of March 1965, as against Rs 19 crores in the case of the State Bank of India. These show an increase of Rs 33 crores and Rs 13 crores respectively, as compared with outstandings as at the close of 1962. Separate figures for State Bank subsidiaries are not available and even after allowance is made for them in the former figure, the share of the private sector banks as a whole would be substantially higher.

It is not suggested that there is no scope for increasing the advances to small-scale industries, but the point to be noted is that there is now a greater awareness among banks than before of the need for serving this sector. Several of them have

established separate departments and liberalised their lending procedures and techniques. Progress in this direction must be accelerated and it is to be hoped that banks will get together to find out how this could be done.

The problem of providing agricultural credit is far more difficult, if not impossible, for commercial banks. When critics say that banks are not doing anything for agriculture, what they apparently have in mind is finance for the agricultural operations of small farmers; they are not referring to the big or medium-size plantations run on a commercial scale or to the financing of marketing of agricultural produce. The latter two sectors of agriculture are already being financed by banks on a substantially large scale and further development of this business should not present much difficulty, if sufficient resources can be mobilised. The existence of Agricultural Refinance Corporation—a public sector organisation—will prove to be of considerable help and is certainly a source of encouragement. The real problem pertains to the provision of credit to millions of individual peasants the vast majority of whom are engaged in subsistence farming, helplessly exposed to the vagaries of monsoons. It has been estimated that there are some 60 million agricultural households: the average size of a household operational holding is about six acres only, what is more, about 70 per cent of the households have land holdings below this average. How are a handful of commercial banks, the resources of which are already fully stretched to cater to the credit needs of this multitude spread over this vast country? If the critics have any convincing answer, the bankers would like to know. A mere change in ownership is no solution. Nearly a third of commercial banking is already State-owned, but this has not touched even the fringe of the problem.

Some of India's best brains have spent a good part of their active life in trying to solve the problem of finance for agriculture. They did not think that commercial banks could be of much use, because of their organisational limitations and obligations to depositors. Their consensus of opinion was that co-operative banks provided the best possible approach, and it has been tried for nearly a decade now. Some progress has been made through the Co-operatives, albeit at considerable cost to the public. A good part of the loans provided through the co-operatives has not been repaid; the overdues in 1962-63 was as much as 22.5 per cent of the outstanding loans. Large diversion of loans taken for productive purposes to non-productive purposes is a common feature. The best thing to do would be to improve, extend and strengthen the co-operative movement. It is possible that a way can be found to associate commercial banks in the dissemination of credit to rural areas, but that calls for a constructive approach and close co-operation among all the interests concerned—namely, the commercial banks, the State Bank of India, the Reserve Bank and the Government, and not threats of nationalisation and more stringent controls. If necessary, a commission of experts with no preconceived notions may be appointed to find out whether commercial banks can provide agricultural credit without detriment to the canons of sound finance and, if so, how and to what extent.

CASE FOR SOCIAL CONTROL OF BANKS

FOUR ECONOMISTS who undertook a study of the banking system in India at the instance of the Secretary of the Congress Parliamentary Party, have expressed the view that banking institutions 'cannot be left alone in the private Sector if the plan objectives have to be realised'. The economists say that there demand for nationalising banks is based purely on economic and social considerations. The report runs to 122 pages and says bank credits in India have not been utilised for financing projects according to plan priorities, but invested in low priority schemes, even those outside the plan. Between 1953 and 1965 (over 12 years), the loans advanced by the bank for Agriculture decline not only in absolute terms but in regard to the proportion of the total funds. The share of agriculture in the total bank credit declined from 3.8 per cent to 0.2 per cent in the period. Easy and cheap availability of credit for a few industrial houses had encouraged the growth of monopolies and concentration of economic power. Pointing out the ineffectiveness of the Reserve Bank in preventing this tendency, they observed that the Reserve Bank had to be very cautious in exercising its regulatory powers lest the confidence of the public in banking in general and in the concerned bank in particular might be undermined. Even in the United States, there was a ceiling on giving loans to a single concern. No bank could extend to any concern a loan which was more than 10 per cent of the paid up capital and the reserve of the bank concerned. Banks had been giving loans at rates of interest much lower than those prevalent in the market. This benefit alone amounted to Rs 100 crores a year. Thus besides the dividend they got for their shares, the promoters of the banks got a substantial benefit through this concessional interest. Debts which were owned by bank Directors to their companies amounted to Rs 56 crores at the end of 1954, had risen to 291 crores at the end of 1965. Over Rs 317 crores were given as loans to the Bank Directors and their companies in 1965. The actual loan figure might be between 600 to 700 crores if allowance is made for the indirect loans and advances to bank directors. Bank deposits rose from Rs 908 crores in 1951 to Rs 3,073 crores in 1965 and Rs 3,500 crores in 1967. These results will give the banks a commanding position of the nations economy in general and financial resources in particular. The number of scheduled and non-scheduled banks came down from 566 in 1951 to 109 in 1965; and 49 per cent of the shares of a leading bank were held by 3 per cent of the shareholders, and 36 per cent of the shares were owned by 1 per cent of the shareholders. It was noted that through 61 existing Indian scheduled banks, no less than Rs 350 crores were mobilised from poorer and backward states and diverted to highly developed states like Maharashtra, Madras and West Bengal. Rajasthan got only a mere one per cent of the bank credit. West Bengal and Madras got more bank credits than the deposits kept by them. The deposits with the State Bank of India which were Rs 220 crores in 1955 rose to Rs 677 crores in 1965—the very fact rebutted the argument that public deposits would fall after Bank Nationalisation. A survey of directorships of 20 leading banking companies revealed that a total of 188 persons served as directors in them. These

bank directors also hold 1,452 directorships of other companies, and the total number of banks under them is 1,100. Similarly, a detailed study of the directorships held by the directors in 5 leading banks revealed that through common directors these banks were concerned with 33 insurance companies, 6 financial institutions, 25 investment centres, 584 manufacturing and other companies and 26 trading companies and 15 non-profit making associations.

It is explained that nationalisation of key industries and financial institutions have been resorted to even in some capitalist countries to strengthen and stabilise their economy. Nationalisation of Banks is an inevitable step towards realisation of socialism. Nationalised banking systems should become an instrument to check the anti-social tendency of 'growth of a few at the cost of many, in the country.'

THE BUILT-IN INFLATION

IF WE IGNORE some minor modifying factors, it can be broadly stated that money supply with the public increases (1) when the banking system—mainly the Reserve Bank of India—creates money to make up the deficit of the Government sector and (2) when the banking system—mainly the commercial banks—creates money to make up the deficit in the total operations of the private sector.

During the last ten years or so, while the private sector has had its share in this money-creation process, the bulk of the money creation has been the result of the budgetary operations of the Central and State Governments. As a result money supply has more than doubled during the Second and Third Plan periods.

An increase in money supply *per se* is neither good nor bad: trouble arises when money supply is allowed to increase at a rate significantly faster than real production. As can be seen from the following tables, while, during the ten years of the Second and Third Plans, money supply rose by 104 per cent, real national income rose by only 38 per cent. As a result, the gap between the two has been widening. This widening gap has been and continues to be the prime mover behind the current inflation.

In the lower table showing the broad pattern of movement of prices during the three Plans, between 1955-56 and 1965-66 average index number of wholesale prices shot up by 79 per cent. As a result, to put it in the common man's language, a rupee of 1965-66 was worth just 56 paise in terms of 1955-56 prices.

Given the basic behaviour patterns of various decision makers in the economy as a whole, it appears as if inflation is 'built-in' in the Indian economy. A more or less steady rise of prices at an annual rate of about 10 per cent may be taken for granted at least for the Fourth Plan Period. (At the time of writing, the official wholesale price index rules 12.4 per cent above the level of a year ago). (See Table 102 and 103).

THE DEPOSIT INSURANCE CORPORATION

THE NUMBER OF insured banks declined to 108 at the end of March 1966 from 146 at the end of March 1965 mainly as a result of voluntary amalgamations under section 44A of the Banking Regulation Act, 1949 and transfers of deposit liabilities

TABLE 102

AVERAGE INDEX NUMBERS OF WHOLESALE PRICES

(base 1952–53=100)

Year (average)	*Average Index*	*Percentage*		
			Cumulative	
		Over Previous Year	*Since 1955–56*	*Since 1960–61*
1950–51	111.8	...	...	...
First plan				
1951–52	118.0	5.5	...	...
1952–53	100.0	−15.3	...	...
1953–54	104.0	4.6	...	...
1954–55	97.4	−6.9	...	...
1955–56	92.5	−5.0	...	...
Rise during Ist plan	...	−17.3	...	...
Second plan				
1956–57	105.3	13.8	13.8	...
1957–58	108.4	2.9	17.2	...
1958–59	112.9	4.2	22.1	...
1959–60	117.1	3.7	26.6	...
1960–61	124.9	6.7	35.0	...
Third plan				
1961–62	125.1	0.2	35.2	0.2
1962–63	127.9	2.2	38.3	2.4
1963–64	135.3	5.8	46.3	8.3
1964–65	152.7	12.9	65.1	22.3
1965–66	165.2	8.2	78.6	32.3

TABLE 103

PRIME MOVER BEHIND CURRENT INFLATION

Year	*Money Supply*		*National Income at 1948–49 prices*	
	Rs Crores	*Per cent increase over 1955–56*	*Rs Crores*	*Per cent increase over 1955–56*
1955–56	2,217	0.0	10,480	0.0
Second plan				
1956–57	2,342	5.6	11,000	5.0
1957–58	2,413	8.8	10,890	3.9
1958–59	2,526	13.9	11,650	11.2
1959–60	2,720	22.7	11,860	13.2
1960–61	2,869	29.4	12,730	21.5
Third plan				
1961–62	3,046	37.4	13,060	24.6
1962–63	3,310	49.3	13,310	27.0
1963–64	3,752	69.2	13,970	33.3
1964–65	4,080	84.0	15,050	43.6
1965–66	4,530	104.3	14,490	38.3

Sources: Money Supply:

(1) Report on Currency and Finance—1965–66 for years 1955–56
(2) R.B.I. Bulletin, December 1965, for years 1956–57 to 1959–60
(3) R.B.I. Bulletin, October 1966, for years 1960–61 to 1965–66

National Income:

Central Statistical Organisation, Estimates of National Income, February, 1964 and March, 1966 and the Press Note on the Quick Estimates of National Income in 1965–66.

and equivalent assets to other insured banks. No new bank was registered as an insured bank during the year. Since its inception in 1962 to the end of March 1966, the Corporation has met claims aggregating Rs 38.59 lakhs in respect of 9 banks. During the same period, repayments received by the Corporation in respect of the claims met totalled Rs 14.01 lakhs and related to 7 banks. As on the last Friday of September 1965, the latest date for which data are available, the total number of deposit accounts with insured banks was 115.76 lakhs of which 88.98 lakhs (or 76.9 per cent of the total number) having balances not exceeding Rs 1,500 each were fully insured.

THE BANKING COMMISSION

By its terms of reference, the Banking Commission has been asked to inquire, among other things, into the existing structure of the commercial banking system, having particular regard to size, dispersion and area of operation and to make recommendations for improving the structure. It will also recommend on extending the geographical and functional coverage of the commercial banking system. All this gives the impression that the Commission is given a tall order and freedom to inquire into and make and amend proposals on social control and beyond. It is, however, reasonable to expect the Commission to take into account the present policy and suggest whether the present banking structure is suited to achieve the financial and monetary objectives or whether the policy is incompatible with the new structure. But to hamstring the Commission and insist that it confines its recommendations to the broad framework of the policy of social control is unfair. This is not to suggest that the Finance Minister is not entitled to put forward his own, or official views on the need for reorganisation of the banking structure in view of the fact that the spread of modern banking to the rural areas has yet to go a long way.

In the implementation of the social control measure the only step taken so far at the organisational level is to re-constitute the boards of the banks and to appoint professional bankers as chairmen. There are also local boards for each bank at various centres, but these boards (which had in many cases come into being even before the social control came into operation) though expected to look after the interests of the regions concerned are mainly advisory bodies. Mr Desai has offered three alternatives for the Commission's consideration. They are (1) the creation of local boards with adequate powers on the all-India banks, (2) the division of the banks (including the State Bank of India) into State-wise or zonal-wise basis, and (3) the reconstitution of the banks into urban and rural wings. He himself seems to favour the second alternative. It may be recalled that the Finance Minister had favoured a similar proposition in the case of the LIC, and had the backing of the Parliament Committee on Public Undertakings also. But New Delhi has not been able to take a decision on it yet. There is no parallel between the LIC, which enjoys a monopolistic position and has a monolithic character, and the banking industry which still faces an element of competition. The Administrative Reforms Commission's working group on LIC was clearly opposed to this move, though for different reasons.

This does not belittle the importance of a reform in the banking field to spread the banking habit. However, to expect that splitting up of the banks into regional units would be the only way for successful implementation of the social control policy is to minimise the capacity of our present banking system to fulfil the needs of the situation. Few banks are too very large with exceptions like the State Bank. As Mr Desai himself admitted, the Indian Banking system has acquired stability, and is adequately equipped to take in its stride any structural change. Banks have

to acquire local roots and contacts, if they are to serve the local needs adequately. At the same time, as credit institutions, banks are delicate instruments, and any hasty measure to change radically their basic structure will undermine public confidence. The Banking Commission has, therefore, a sensitive, but nonetheless a hard task ahead in evolving a scheme for improving the banking structure and making it more responsive to the economic and social changes in the country.

Chapter XIV

INDUSTRIAL FINANCE

INTERNATIONAL INVESTMENT INSURANCE

The World Bank has circulated to member Governments for comments on the draft agreement of the International Investment Insurance Agency. Although it is too early to express the reaction of the Governments on the various provisions, it is argued that the establishment of this agency will go some way in encouraging the flow of private capital to developing countries. However knowledgeable circles have expressed the view that no agency whatever be its intentions would be in a position to assist developing countries in getting their foreign capital requirements unless there is a 'change of heart on the part of the developed countries'. They point out how the expectations from the United Nations Conference on Trade and Development (UNCTAD) are yet to be realised and how difficult it had become of realisation is clear from the inelastic approach of the developed nations. The recent experience of India in not being able to get the requisite foreign aid for establishing fertiliser project had been pointed out in this connection. The object of the proposed agency is to encourage the flow of new private foreign investment of a developmental character to the developing countries by insuring such investments against non-commercial risks such as:

(*a*) Expropriation, confiscation or other governmental action which deprives the insuring investor of an effective control over or the benefits of his investment;

(*b*) Governmental restrictions on conversion and transfer from the currency of the member-country, in whose territories the investment is to be made, into another appropriate currency; and

(*c*) Armed conflict or civil unrest.

NEW INVESTMENT

The investment has to be sponsored for insurance by a member as also to be approved by the host country in whose territories the investment is to be made. The term 'new investment' has been defined to include:

(*i*) An investment made to expand, modernise or develop any existing enterprise;

(*ii*) The reinvestment of earnings;

(*iii*) An investment made to refinance an existing obligation which was at the time of such refinancing insured by the agency;

(*iv*) The purchase from the International Finance Corporation or other public international developing financing institution of securities representing investments originally made by any such institution; and

(v) The purchase of outstanding securities of an existing enterprise in conjunction with an investment made for modernisation, expansion, or development.

The draft articles provide for the payment of premium by the investors as well as sharing of loss incurred under insurance issued by the agency by the members. The premium is to be charged for each type of risk insured at such rate or rates as may be determined from time to time by the agency. In setting the level of premium, the agency shall be guided to the extent possible by the objective of earning sufficient income to meet administrative expenses and provide for such reserves as may be appropriate to meet losses. The agency can also prescribe other fees and charges in connection with its operation. A loss incurred under insurance issued by the agency is to be divided for the purpose of sharing by the sponsoring countries, into two equal parts. The first is to be shared by all sponsoring countries and the second only by those sponsoring countries, which have sponsored insurance covering investments made in the host country in which the particular loss occurred. In exceptional circumstances, a member can notify the agency that it will not share any liability for losses incurred on insurance to be issued, after receipt by the agency of such notification, covering investments in a particular country that the right to exclude has been abused by the member. By a vote of two-thirds, of the total voting power of the board of directors, may decide to reject such notification.

U.S. INDUSTRIAL INVESTMENT: 1967

STEPPED-UP SPENDING by the durable goods industry is boosting American industry's investment plans for 1967. The industry now expects to spend \$64.38 billion, a 6.3 per cent increase over the \$60.9 billion, spent in 1966. More important, however is that the boost is almost 1.5 per cent higher than the \$63.8 billion the industry indicated the last Fall as the amount it would spend in 1967. These were the major highlights of a special check-up by the Economics Department of McGraw-Hill Publications on industry's 1967 investment plans. The Department's 13th annual Fall survey, released in early November, had shown preliminary business plans for new plants and equipment spending at \$63.8 billion up about 5 per cent from 1966. The check-up survey, taken in the last three weeks in January, queried companies, representing every major field of industry and which account for almost 50 per cent of total capital spending. Except for non-ferrous and stone, clay and grass manufacturers, all durable goods industries were operating above their preferred rates in December. These were machinery, electrical machinery, transportation equipment other than autos, fabricated metals and instruments. According to the recheck survey, non-durable goods spending for 1967 shows a 5 per cent increase, whereas the last Fall, it was 4 per cent. However, the survey notes substantial changes in specific industries. Textiles, which in November expected a 9 per cent drop in capital spending, has revised that to 19 per cent. The chemical industry expects to spend less, though capital investment figures will stay close

to the $3 billion mark. Food and beverage industry spending will be less, but rubber, paper and petroleum have upped capital spending plans. The biggest switch in the non-manufacturing industries according to the survey, will be in the mining industry, which plans to raise 1967 spending by 14 per cent. In November, the industry anticipated a 3 per cent drop for this year.

SAVINGS AND THE FINANCING OF INVESTMENT

THE MARKED GROWTH of investment has been accompanied by a substantial increase in personal savings, which in 1965 amounted to £2,051 million. As a proportion of disposable income (7½ per cent), personal savings were below the 1961 level of (8½ per cent), but well above the level in 1956 (5¾ per cent), Table 104:

TABLE 104

SAVINGS IN THE UNITED KINGDOM

£ million

	1956	1960	1965
Personal ...	823	1,367	2,051
Companies ...	2,038	2,679	3,293
Public Corporations ...	205	309	663
Central Government ...	412	190	894
Local Authorities ...	126	246	342
Total ...	3,604	4,791	7,243

The rise in personal savings has taken various forms. There has been increased investment by the personal sector itself in new dwellings and fixed assets. Life assurance premiums and other forms of contractual savings, such as superannuation funds, have grown almost without interruption for many years and now contribute over half the total. National Savings have also increased since the early 1950s, although the 1965 increase of £74 million was one of the smallest in recent years and compares with a record peace time increase of £396 million in 1959. Building societies are able to attract considerable sums of personal savings, which reached a peak of £657 million in 1965. The largest contribution to savings comes from companies, which up to 1959 provided about half the total, but there was a fall in company profits in 1961 and 1962 compared with 1960 and only in 1963 did their savings reach the 1960 total, in 1965 they increased by about 19 per cent and accounted for more than 45 per cent of total savings. Public corporations, as part of the policy of financing a larger share of their investment needs from their own resources, have raised their savings total considerably since 1959 and the 1965 figure was nearly a tenth of total savings.

INVESTMENT CLIMATE FOR FOREIGN CAPITAL

THE CHAIRMAN, Burmah Oil Company Mr R. P. Smith has gone back to England with the impression that the investment climate in India is not only congenial but also encouraging. This is obvious from this offer to the Union Government to arrange for £500,000 in foreign exchange for financing Oil India Ltd., exploration programmes during 1967-68, even before the possible political trends of the coming general elections are known. Most of the foreign firms and investors are waiting for the installation of the new Government at the Centre before committing further investments. What is even more significant, the BOC chief has made the offer despite the fact that the BOC's guarantee of 13 per cent per annum from its investment in OIL divided have been reduced to a little over 8 per cent in terms of foreign exchange as a result of devaluation. Moreover, the offer has been made even after the Union Government has indirectly rejected the BOC offer to set up a fertiliser plant costing nearly £22 million in foreign exchange by its decision to go ahead with second stage of the public sector fertiliser plant at Namrup with a view to raising its annual capacity from 45,000 tons of nitrogen to 1,45,000 tons. The BOC's proposed plant was to be based on the natural plant at the Nahorkatiya-Moran oil fields of OIL, a 50:50 joint collaboration venture of the BOC and the Union Government. What is more, the BOC's willingness to supply crude oil to the proposed Haldia refinery at competitive prices will enable the Government not only to go ahead with the long delayed Haldia refinery but also in its negotiations with other oil firms for the supply of the crude oil. In the event of the terms of such supplies being agreeable to the Union Government, the BOC would be even willing to participate in the setting up of the refinery estimated to cost Rs 30 crores, including about Rs 15 crores in foreign exchange. Detailed negotiations on the various aspects of the proposals are expected to be continued by the financial and technical teams of the company later. The BOC has shown interest in collaborating with the Government in setting up some petro-chemical complexes in Assam for the utilisation of the natural gas resources in the State. At present the gas is being flared because its storage is considered uneconomical. Mr Smith left for Britain recently after a 10 day tour of this country. His impression of the tour are of considerable significance because they will have a major impact on future investment in India not only by his group of companies but by the foreign private investors in general.

PATTERN OF FINANCING THE PUBLIC SECTOR

A CRISIS OF RESOURCES, particularly in the public sector, is one of the chronic ailments of planning in India. Tax revenues, surpluses from public enterprises, and internal capital receipts should together be in a position to finance the public sector outlay. But in the Third Plan, these sources provided a little more than half (54.2 per cent) of the total resources. A little less than half of the resources came from dubious sources—deficit financing (17.3 per cent) and external assistance (28.5 per cent).

This grave failure of the public sector to raise resources through healthy means becomes all the more surprising if we recall that the Government has been claiming a larger and larger share of the national income through the tax revenues. Tax revenues as a percentage of the national income rose from about 7 per cent in 1950-51 to about 14 per cent, in 1965-66 in absolute terms. The increase in tax revenues has been truly phenomenal—from about Rs 600 crores to Rs 3,000 crores.

As can be seen from the following table authorities hope to change the pattern of financing the Public Sector during the Fourth Plan. The yield of tax revenues would most probably be raised to higher, undreamt of levels. But in view of the fiscal indiscipline which seems endemic to Government operations in India, it is highly unlikely that the pattern would actually change in any significant manner.

It is difficult to hazard any guess in this matter, however, it is most probable that tax revenues and surpluses from public enterprises may not be able to provide the 46 per cent of the total resources envisaged during the Fourth Plan. There might be sizeable shortfalls which, as usual, would be filled up by deficit financing. Most probably, we would end up with a resources pattern similar to that observed during the Third Plan.

At numerous places, the Draft Fourth Plan solemnly proclaims that there will not be any deficit financing during the Fourth Plan. In fact, the document proudly shows a nil sign against deficit financing. Curiously enough, an amount of Rs 565 crores has been shown against 'unfunded debt', which is nothing but a less known term for a variety of deficit financing. Anyway, Finance Ministry sources freely admit that in the first year of the Fourth Five Year Plan (1966-67) alone, the deficit financing may be of the order of Rs 500 crores. One would not be surprised if over the Fourth Plan period as a whole, deficit financing turns out to be of the order of Rs 1,600 crores. Details are shown in Table 105.

TABLE 105

ESTIMATES OF FINANCIAL RESOURCES FOR THE THIRD AND FOURTH PLANS

(Rs crores)

Item	*Third Plan*		*Fourth Plan*	
	Amount	*Per cent*	*Amount*	*Per cent*
A. Tax revenues and surpluses from Public Enterprises				
1. Balance from current revenues at pre-plan rates of taxation	−470	−5.4	3,010	18.8
2. Contribution of railways on the basis of pre-plan rates of fares and freight charges	80	0.9	260	1.6
3. Surplus of other Public enterprises on the basis of pre-plan prices of products	395	4.6	1,085	6.8

(*Continued on page 404*)

(*Continued from page 403*)

Item	*Third Plan*		*Fourth Plan*	
	Amount	*Per cent*	*Amount*	*Per cent*
4. Economies in Non-plan expenditure	...	...	335	2.1
5. Additional mobilization of domestic resources	2,880	33.4	2,730	17.1
(*a*) Measures adopted in 1966–67	...	...	930	5.8
(*b*) Further measures to be adopted in remaining period of the Fourth Plan	...	...	1,800	11.3
Sub-total	2,885	33.4	7,420	46.4
B. Internal Capital Receipts				
6. Loans from public (net)	915	10.6	1,500	9.4
7. Small Savings	585	6.8	1,000	6.2
8. Compulsory deposits and Annuity deposits (net)	115	1.3	150	0.9
9. Miscellaneous capital receipts (net)	185*	2.1	665	4.2
Sub-total	1,800	20.8	3,315	20.7
C. External Assistance Budgetary receipts corresponding to external credits				
10. Other than those under PL 480	1,575	18.3	4,340	†27.1
11. PL 480 aid	880	10.2	360	†2.3
Sub-total	2,455	28.5	4,700	29.4
D. Deficit Financing				
12. Unfunded debt (net)	340	3.9	565	3.5
13. Deficit Financing	1,150	13.3	...	...
Sub-total	1,490	17.3	565	3.5
Aggregate Resources	8,630‡	100.0	16,000	100.0

* Inclusive of receipts from steel equalization fund.

† These figures are at the new rate of exchange. Consequently they are not comparable with the figures of the Third Plan period which are in terms of devaluation rupee.

‡ This figure of Rs 8,630 crores differs from Rs 8,631 crores as given in Chart V. The two figures have been taken from page 80 and page 43 respectively of the Fourth Plan —A Draft Outline (August 1966) where no explanation of the discrepancy has been given.

Source: Fourth Five Year Plan—A Draft Outline, August 1966, p. 80. Items rearranged and percentages added.

ENTERPRISES OF THE GOVERNMENT OF INDIA AND THE STATES

THE RATE OF return on Central Government investments in 49 departmental and non-departmental economic enterprises, low as it is, has been falling steadily from 2.8 per cent in 1963-64 to 1.4 per cent in 1964-65, to 1.1 per cent in 1965-66, ending up with a loss of 0.1 per cent in the year 1966-67. In March 1967, the total investment of the Central Government in all the 88 economic enterprises (officially termed 'commercial undertakings') under it was of the order of Rs 4,657 crores. Of this, a sum of Rs 3,189 crores was invested in railways and other departmental enterprises, and Rs 1,468 crores in non-departmental enterprises. Of these 77 non-departmental undertakings 26 units were under construction and a sum of Rs 326.5 crores was invested in these units. Although, all the steel plants of Hindustan Steel are fully commissioned for quite sometime, the company is still officially categorised as 'not fully commissioned'; this company accounts for Rs 528 crores of the Central Government investment.

An amount of Rs 469 crores was invested in 37 running concerns and a further amount of Rs 144 crores was invested in 13 promotional and developmental enterprises. The following figures give some idea of the recent increase in the capital invested in all the 88 departmental and non-departmental economic enterprises under the Central Government.

CENTRAL INVESTMENT IN DEPARTMENTAL AND NON-DEPARTMENTAL ENTERPRISES

March-end	*Rs crores*
1963	2,903
1964	3,416
1965	3,881
1966	4,335
1967	4,657

Details of the investment in all the units with investment of Rs 5 crores or more as at the end of March 1967 are given in the following Table.

TABLE 106

CAPITAL INVESTED IN COMMERCIAL AND INDUSTRIAL UNDERTAKINGS OF THE CENTRAL GOVERNMENT

(Rs crores)

Category and name of important undertakings	*As at the end of March 1967*
A. Departmental Commercial Undertakings:	
1. Railways	2,855.5
2. Posts and Telegraphs Departments	293.6
3. Currency Note Press	6.0
4. Overseas Communications Service	5.0
5. Light house and Light Ships	7.7
6. Forest Department, Andaman	6.4
Others (5 units)	14.9
Total of 11 Departmental units	3,189.1

(*Continued on page 406*)

(*Continued from page 405*)

Category and name of important undertakings	*As at the end of March 1967*
B. Non-departmental Commercial and Industrial Undertakings:	
(*a*) Undertakings under construction:	
1. Heavy Electricals	50.0
2. Heavy Engineering Corporation	85.8
3. Mining and Allied Machinery Corporation	19.8
4. Bharat Heavy Electricals	61.7
5. Indian Drugs and Pharmaceuticals Ltd.	21.5
6. Madras Refineries	6.3
7. Bokaro Steel Ltd.	38.0
8. National Mineral Development Corporation Ltd.	16.2
Others (18 units)	27.2
Total of 26 units	326.5
(*b*) Completed undertakings not fully commissioned:	
1. Hindustan Steel Ltd.	528.0
(*c*) Running concerns:	
1. Hindustan Aeronautics Ltd.	38.6
2. Bharat Electronics Ltd.	5.2
3. Bharat Earth Movers Ltd.	8.3
4. Hindustan Machine Tools	12.0
5. Fertiliser Corporation of India	57.9
6. Indian Oil Corporation	69.7
7. National Coal Development Corporation	75.3
8. Neyveli Lignite Corporation	80.0
9. Air India	26.8
10. Indian Airlines Corporation	21.9
11. Hindustan Shipyard Ltd.	6.3
12. Shipping Corporation of India Ltd.	23.5
Others (25 units)	43.8
Total of 37 units	469.3
(*d*) Promotional and Developmental Undertakings:	
1. Central Warehousing Corporation	6.4
2. Food Corporation	14.4
3. Oil and Natural Gas Commission	118.1
Others (10 units)	5.3
Total of 13 units	144.2
Total of 77 Non-departmental units	1,468.0
Grand Total (88 units)	4,657.1

If we exclude the enterprises under construction and those which are categorised as promotional and developmental, the return from all the other departmental and non-departmental enterprises was as under during the recent years:

	Rs crores
1963–64	75.6
1964–65	44.3
1965–66	37.8
1966–67	−4.5

Thus it is apparent that while the investments mount, the returns decline—even in absolute terms, turning into absolute loss during 1966-67. Detailed data in respect of returns from various types of enterprises are given in the following Table:

TABLE 107

RETURNS ON INVESTMENT IN COMMERCIAL AND INDUSTRIAL UNDERTAKINGS UNDER THE CENTRAL GOVERNMENT

1962–63 to 1967–68

Item	*Departmental undertakings*	*Non-departmental undertakings*					*All commissioned undertakings cols. 1, 3, 4*
		Under construction	*Completed but not fully commissioned*	*Running*	*Promotional and developmental*	*Total Cols. 2, 3, 4, 5*	
	1	2	3	4	5	6	7
1962–63							
Capital (Rs crores)	N A	143.8	307.0	183.2	4.8	638.8	490.2
Return („ „)	...	...	−23.9	14.8	...	−9.1	−9.1
Return as per cent of capital	...	...	−7.8	8.1	...	−1.4	−1.9
1963–64							
Capital (Rs crores)	2,096.9	201.2	367.0	196.0	42.2	806.4	2,659.9
Return („ „)	64.5	...	−4.8	15.9	0.6	11.7	75.6
Return as per cent of capital	3.1	...	−1.3	8.1	1.4	1.5	2.8
1964–65							
Capital (Rs crores)	2,389.8	230.1	447.0	254.2	95.2	1,026.5	3,091.0
Return („ „)	24.7	...	2.1	17.5	−3.8	15.8	44.3
Return as per cent of capital	1.0	...	0.5	6.9	−4.0	1.5	2.8
1965–66							
Capital (Rs crores)	2,700.0	262.8	528.0	258.3	131.8	1,180.9	3,486.3
Return („ „)	19.4	...	1.7	16.7	1.4	19.8	37.8
Return as per cent of capital	0.7	...	0.3	6.5	1.1	1.7	1.1
1966–67							
Capital (Rs crores)	2,984.0	255.4	528.0	436.9	130.6	1,350.9	3,948.9
Return („ „)	−12.9	...	...	8.4	0.2	8.6	−4.5
Return as per cent of capital	−0.4	...	...	1.9	0.2	0.6	−0.1
1967–68							
Capital (Rs crores)	3,189.1	326.5	528.0	469.3	144.2	1,468.0	4,186.4
Return („ „)	5.3	...	...	3.9	0.2	4.1	9.2
Return as per cent of capital	0.2	...	...	0.8	0.1	0.3	0.2

The Planning Commission expected that during the Third Plan, the surplus of public sector enterprises would contribute Rs 550 crores towards plan resources. Of these, Rs 400 crores were to come from the Central Government enterprises and Rs 150 crores from the State Government enterprises. According to the Draft Fourth Plan, the actual contributions from the two sources were Rs 370 crores and Rs 105 crores respectively, adding up to Rs 475 crores. The surplus expected during the Fourth Plan is placed in the Draft Plan at Rs 1,345 crores of which Rs 1,020 crores would be from the Central enterprises and Rs 325 crores would be from the State enterprises.

PUBLIC SECTOR OUTLAY IN THE FOUR PLANS

THE SIZE OF a plan is always the subject of a heated controversy. Unfortunately, rarely is an attempt made to quantify the criteria for bigness or smallness of a plan. A simple way of measuring the size of a plan is to express the public sector outlay as a percentage of the national income during the year preceding the plan period. This in a way gives us a meaningful measure of the effort actually put through or intended to be put through during a plan. Such data for the four Plans are presented in Table 108. The percentages for the first three plans represent the actual effort made, while that for the Fourth Plan indicates the magnitude of the intended effort. It is obvious from the table that measured in this way, the magnitude of the effort has been sharply rising. During the Fourth Plan, the intended public sector outlay (at Rs 16,000 crores) would be equal to 80 per cent of the national income of 1965-66. It should be emphasised once again that whether the Fourth Plan will really turn out as big as intended would depend considerably on two factors first, the actual financial outlay and secondly, the movement of prices and the national income at current prices during the Fourth Plan period. As is well known, these two factors are not entirely unrelated to each other. What these would be during the five years of the Fourth Plan, we do not know at the moment. All that can be said with confidence is that ever since a particular figure (Rs 21,500 crores at 1963-64 prices) was first mentioned as the size of the Fourth Plan, prices have risen sharply, thus reducing the real size of the Fourth Plan, prices have size of the proposed Plan by about one-third. In other words, by sheer passage of time, the size of the Plan (at present officially placed at Rs 23,700 crores) in real terms becomes smaller and smaller. The Public sector outlay during the first year of the Fourth Plan (1966-67) has been fixed at Rs 2,081 crores, which is lower than the Rs 2,225 crores outlay during 1965-66. As to percentage of the national income in 1966-67, the public sector outlay for 1966-67 may work out at 9.5 per cent against the corresponding figure of 11.1 per cent in 1965-66. The prospects for an increase in the outlay (expressed as a percentage of the national income) in 1967-68 are rather dim: at least, this is what the Finance Ministry feels, although the Planning Commission does not agree. On balance, it appears that the average annual public sector outlay (expressed as a percentage of the national income) during the Fourth Plan is unlikely to rise above the level (11.1 per cent) that prevailed during the last year of the Third Plan.

TABLE 108

PUBLIC SECTOR OUTLAY IN THE FOUR PLANS

Plan	*Absolute size in public sector*	*National income at current prices in the pre-plan year*	*Relative size of the plan in terms of national income of the pre-plan year (per cent)*	
			For 5 years	*Per annum*
First	2,012*	9,530	21	4.2
Second	4,600	9,980	46	9.2
Third	8,630	14,140	61	12.2
Fourth	16,000	19,990	80	16.0

Source: Col. (1) Selected Plan Statistics, December 1959 (p. 24) for the First Plan.
Third Five Year Plan (p. 95) for the Second Plan; and Fourth Five Year Plan—A Draft Outline (p. 80) for the Third and Fourth Plans.
Col. (2) Estimates of National Income, March 1966 for the First, Second and Third Plans, and
Fourth Five Year Plan—A Draft Outline (p. 61) for the Fourth Plan.

* The actual outlay is, however, Rs 1,960 crores.

Sources: Col. (1) First Five Year Plan, p. 71.
Second Five Year Plan, p. 56.
Third Five Year Plan (p. 739) for years 1951–52 to 1959–60 and p. 58 for target.
Fourth Five Year Plan—A Draft Outline, p. 80.
Economic Survey (1962–63 to 1965–66 for years 1960-61 to 1964–65).
Finance Ministers Budget Speech, 1966-67 part A (p. 13), part 29 for the years 1965-66 and 1966-67.
Col. (2) White Papers for all the years except 1965-66 Fourth Five Year Plan—A Draft Outline (p. 61) for the years 1965-66.

Note: The targeted aggregates of National Income at current prices during the First, Second, Third and Fourth Plans have estimated by us on the basis of:

(*i*) the actual national income at current prices during the year preceding a respective plan, and

(*ii*) an assumed uniform (compound) rate of growth of real national income derived from the plan target for the relative plan period. The growth rate so derived for the four plans were 2.11 per cent, 4.57 per cent, 5.40 per cent and 8.17 per cent respectively. Since the plans assumed to increase in prices, no adjustment for price changes for target figures is required.

TABLE 109

PLAN OUTLAY IN THE PUBLIC SECTOR AS PERCENTAGE OF NATIONAL INCOME

(Rs crores)

Year	*Outlay*	*National Income at current prices*	*Outlay as percentage of national income*
First plan			
1951–52	260	9,970	2.6
1952–53	267	9,820	2.7
1953–54	343	10,480	3.3
1954–55	476	9,610	5.0
1955–56	614	9,980	6.2
First plan total (Actual)	1,950	49,860	3.9
(Target)	2,069	50,752	4.1
Second plan			
1956–57	633	11,310	5.6
1957–58	884	11,390	7.8
1958–59	1,001	12,600	7.9
1959–60	1,011*	12,950	7.8
1960–61	1,071	14,140	7.6
Second plan total (Actual)	4,600	62,390	7.4
(Target)	4,800	57,174	8.4
Third plan			
1961–62	1,130	14,800	7.6
1962–63	1,414	15,400	9.2
1963–64	1,674	17,210	9.7
1964–65	2,086*	20,010	10.4
1965–66	2,225†	19,990	11.1
Third plan total (Actual)	8,529	87,410	9.8
(Target)	7,500	83,014	9.0
1966–67	2,081*	22,000†	9.5
Fourth plan target	16,000	1,27,286	12.6

* Budgeted estimate.
† Our estimate.

COMPOSITION OF PUBLIC SECTOR OUTLAY (IN PERCENTAGES)

ONE IS APT to miss the essential structure of the public sector outlay if one starts looking at the familiar detailed item-wise data.

Once the data are grouped under some broad heads, as has been shown below, the basic uniformity underlying the structure of the Second, Third and Fourth Plans becomes immediately clear. First Plan has been left out because the basic philosophy and technique of planning in India assumed stable forms only with the formation of the Second Plan.

When one considers the myriad pulls and pressures which shape the structure of the public sector outlay, one cannot but be impressed by the amazing uniformity in the structure which has emerged from plan to plan.

There is a good deal of controversy about the respective shares of the private and public sectors in the various heads of investment outlay. It is interesting to note that it is only the industry and mining (accounting for about a fourth of the total public sector outlay), around which the controversy regarding the shares of the two sectors mainly centres.

So far as the three other broad heads (irrigation, power, transport) are concerned, the private sector is not too keen to enter these areas because the gestation period is too long and, what is more important the returns are practically nil, if not negative. On the other hand, it is generally recognised that the growth of the private sector would become extremely difficult unless the infra-structure of the economy (broadly falling under these three heads) is built by the public sector.

TABLE 110

PUBLIC SECTOR OUTLAY IN THE THREE PLANS

Item	*Second Plan (Actual)*		*Third Plan* (Likely Expenditure)*		*Fourth Plan (Target)*	
	Amount Rs crores	*Per-centage to total*	*Amount Rs crores*	*Per-centage to total*	*Amount Rs crores*	*Per-centage to total*
A. Agriculture:						
Agriculture, community Development and Co-operation	529	11.5	1,103	12.3	2,410	15.1
B. Industry and Mining:						
Organised Industry and Mining	900	19.6	1,735	20.1	3,936	24.6
Village and small Industries	176	3.8	220	2.5	370	2.3
Sub-total	1,076	23.4	1,955	22.6	4,306	26.9
C. Irrigation, Power, Transport and communications:						
Power and Irrigation	866	18.8	1,919	22.3	2,884	18.7
Transport and communications	1,300	28.3	2,116	24.5	3,120	18.8
Sub-total	2,166	47.1	4,035	46.8	6,004	37.5
D. Investment, social:						
Education	256	5.5	596	6.9	1,210	7.6
Scientific Research	...	...	75	0.9	140	0.9
Health	216	4.7			492	3.1
Family Planning	...	...	357	4.1	95	0.6
Water supply	...	...			373	2.3
Housing and construction	80	1.7	110	1.3	280	1.7
Welfare of backward classes	79	1.7	102	1.2	180	1.1
Social welfare	35	0.8	19	0.2	50	0.3
Craftsmen Training and Labour Welfare	...	...	72	0.8	145	0.9

(*Continued on page 412*)

(*Continued from page 411*)

Item	*Second Plan (Actual)*		*Third Plan* (Likely Expenditure)*		*Fourth Plan (Target)*	
	Amount Rs crores	*Per-centage to total*	*Amount Rs crores*	*Per-centage to total*	*Amount Rs crores*	*Per-centage to total*
Public Co-operation	...	2	2	...	10	0.1
Rural Works	...	...	41†	0.5	95	0.6
Hill Areas and Special Areas	...	...	...	...	·50	0.3
Rehabilitation	63	1.4	48	0.6	90	0.6
Other Programmes	100	2.2	116	1.3	70	0.4
Sub-total	829	18.0	1,538	17.8	3,280	20.5
Grand total	4,600	100.0	8,631	100.0	16,000	100.0

* The Third Plan figures, as given in Source (1), have been worked out on the basis of the actuals for the first four years of the Plan and likely expenditure for 1965-66. However, it is felt that the total expenditure may be lower than Rs 8,631 crores.

† Includes Rs 22 crores of local works.

Sources: (1) Fourth Five Year Plan—A Draft Outline, p. 43.
(2) Third Five Year Plan, pp. 738 and 739.

MIGHTY SECTOR OF MISMANAGEMENT

A RATHER DISTURBING picture of how several giant public sector industrial undertakings in the eastern region, accounting for a total investment of nearly Rs 2,000 crores, have been managed emerges from a study made by a team of senior members of Parliament recently. The team visited the three steel plants at Bhilai, Rourkela and Durgapur, Sindhri Fertilisers, Damodar Valley Project areas, Chittaranjan Locomotives, Hindustan Cables, Ranchi Heavy Engineering Corporation and the Central Technical Instructors Training Institute at Calcutta. Brief as the time at the disposal of the team was, it had however, returned with several observations which, when totalled up, did not add up to a flattering picture of the health of Public sector units in the country nowadays. It was not very happy that the three steel plants, into which as much as Rs 1,023 crores has been sunk, lost Rs 82 crores during about 15 years, only to make a marginal profit of Rs 1.66 crores during 1965-66.

But it was afraid that even this modest performance could not be repeated this year, thanks to the fact that a lot of unsold steel had piled up with the HSL. It found that much of the loss had accrued because of the financial policies followed by the Government. The present recession was due to the high rate of bank interest, credit squeeze and 'the general disturbed conditions prevailing in the country'. As against an investment of as much as Rs 963 crores till the end of March 1966, the annual turnover during 1965-66 was hardly Rs 239 crores in the three plants. But, the Chairman of HSL had not taken a bleak view of the future prospects of the complex. He hoped that it would improve in another five years. Nor did he see in the present situation of disincentive to the starting of another steel mill,

since the country continued to import as much as Rs 100 crores worth of steel every year. In Durgapur, the team found machinery worth as much as Rs 13.2 crores had been spoiled on account of bad maintenance. This was mostly because of the policy of the Government to make over the powers of supervision, control and inspection to the general manager. The team favoured retention of this power with the HSL itself.

The existence of 14 trade unions in the same mill had also played havoc with production in the Durgapur plant, he observed. It was shocking that as much as 28 per cent of the wages paid to the workers last year accounted for overtime because there was a systematic move by the labour not to work much during working hours. But such a phenomenon had not been noticed in the other two mills. Both in Durgapur and Rourkelà, the 'mistake' of sending away the bulk of foreign experts too soon had wrought much of the damage, the team felt. But the Bhilai Plant had been showing a heartening trend of progress because of the fact that the Russian experts there continued to hold the fort.

He was sorry that the fertiliser plant attached to the Rourkela steel mill was working to just a third of its capacity. Giving figures, he pointed out that the quantity of saleable steel in the Rourkela mill had come down from 7,87,000 tons to 6,83,000 tons in one year. The reduction of coke, iron and ingot steel had also come down in equally alarming proportions. But the management had pleaded that this was due to the fact that the power supply was cut down by half during last year following the severe drought conditions.

The production of double salt in the Sindhri Fertilisers was described as a 'terrific failure'. He said the team had not received convincing replies to its queries from the management. While the ammonium sulphate and area units were working to 92 per cent and 84 per cent capacity, respectively, the double salt production was hardly 42 per cent of the rated capacity. Right from the planning stage, things had gone wrong. There was hardly any chance of the quality also being improved. An even more sorry state of affairs was revealed in the Pyrites and Chemicals Corporation, which started six years ago with an investment of Rs 6 crores. This plant had not even started production yet, mainly because of defects in the management.

But he paid a rich tribute to the 'wonderful work' done by the Planning and Development wing of Sindhri Fertilisers. It had accounted for a foreign exchange saving of Rs 4.24 crores till last year, and this saving was expected to increase to Rs 12.5 crores by the end of the current financial year. The team had recommended direct application of ammonia to the soil instead of the laborious manufacture of ammonia sulphate. The team was intrigued to find that out of the 3.75 million acre feet of water flowing in the Damodar Valley even during the lean season (the maximum flow being as high as 7.7 million acre feet) are, the Maithon and Panchat dams together had been impounding only one million acre feet. The rest of the water was flowing into the sea. The team urged that something should be done to arrest this marathon waste of water.

While the team expressed satisfaction at the way the Chittaranjan Locomotive Works was functioning, it felt that it was imperative for the Government to convert it into a separate Corporation rather than treat it as a wing of the Railway Ministry. This would prove an 'eye-opener' to some other public sector units. The Hindustan Cables also drew the admiration of the team which was happy to learn that the factory was exporting its product to Nepal, Ceylon, Malaysia and West Asia. The team did not relish the idea of the Central Technical Instructors Training Institute in Calcutta manufacturing finished goods for the benefit of the 1,200 trainees and destroying them later. This was not the best way of utilising machinery worth more than Rs 1.30 crores. The drain was even more, considering the fact that there were six more similar institutions doing the same work in the country. They would be helping the nation's economy a lot more if they also manufactured something worthwhile.

It was a distressing picture of the Hindustan Heavy Engineering Corporation that presented. This Plant, which could manufacture one steel mill with a million ton capacity every year, was today begging for orders. The process of erecting the required machinery was not yet over, but there was no work for even what had been erected now. Up to March last year, the Corporation had lost Rs 3.5 crores. To make matters worse, very costly and sophisticated equipment worth over Rs 1 crore had been burnt down by saboteurs let in by Pakistan. Two officials of the Pakistan High Commission had been arrested for abetting this crime. But the corporation Chairman had told the team that it would break even by 1970-71. But the team's suggestion was that the corporation could start manufacturing rings for tubewells and cylinders for ammonia. The management was prepared to make 500 rings and one lakh cylinders a year if only the Government placed orders with the plant. The team had forwarded the suggestion to the Government in view of the fact that a chain of tubewells in the Indo-Gangetic Plains could fully utilise the fantastic underground water resources there.

NEW SCHEME FOR FINANCING SOCIAL PROJECTS

The Planning Commission has decided to reduce the number of Centrally sponsored schemes and introduce a simpler pattern of assistance for Centrally sponsored and Centrally aided schemes. The new classification of Plan schemes and pattern of Central assistance will be valid until the first year of the Fifth Plan. The number of Centrally-sponsored schemes—mainly in the fields of agriculture, education and health, which are State subjects—was hitherto as large as 126. There are now about 90 schemes which will be sponsored Centrally, with the amount of grants usually covering 100 per cent of the expenditure. In the second category of schemes, the percentage of grants varies from 15 to 100 per cent. There are 36 other Centrally-sponsored schemes which are being transferred to the State sector and will merge with the State Plans. It has also been stated that while the Central share of outlays on Centrally-sponsored schemes would be provided in the respective Plans of Central Ministries, the States' share of the outlay would form part of the Fourth Plan outlays of State Governments. With regard to certain

schemes—classified earlier as Centrally-sponsored in the Fourth Plan and now transferred to the States sector. The total outlay on them will now form part of the Fourth Plan outlays of States, the Centre's share of Plan outlay on these schemes being available as Central assistance, in addition to the amounts already agreed upon for States Fourth plans. Out of 35 schemes to be transferred to States, Central assistance for eight will be earmarked, while fixing the annual Plan outlays of States under different heads of development, adequate provision would be made for these schemes and Central assistances for them would be indicated specifically. As regards patterns of Central assistance for Centrally aided schemes, it has been decided that by and large these would be by heads or sub-heads of development. In case of selected irrigation and power projects and schemes under a few other heads of development, Central assistance would be by individual schemes or groups of schemes. As in the Third Plan, Central assistance would continue to be earmarked for agricultural programmes, certain selected schemes under irrigation and power, and few other heads of developments.

A summary of the pattern of Central assistance, to be effective till 1971-72, is:

Under the agricultural sector, 24 schemes will receive 100 per cent grants during the Fourth Plan period. The remaining six schemes which will receive 50 per cent grant are pilot projects for subsidy on improved agricultural implements, subsidy on soil conditions, survey and investigation of ground water resources and research, soil and water conservation in watershed of river valley projects, preparation of land records and reforms and for the development of chronically drought-affected areas, 50 per cent of the total outlay on schemes will be provided by the Centre. Co-operative farming 20 per cent and 80 per cent, urban consumers' co-operatives 20 per cent and 80 per cent, agricultural credit stabilisation funds 75 per cent and 25 per cent, large size export-oriented processing units 100 per cent (loan), applied nutrition programme 50 per cent (grant only), panchayati raj training centres (existing) 70 per cent of non-recurring of Rs 62,500, 50 per cent of recurring of Rs 59,000, panchayat secretaries training, upgrading and augmentation 75 per cent of non-recurring of Rs 55,000 and 50 per cent of recurring of Rs 59,380, upgrading 50 per cent and 100 per cent pilot project for integrated areas, developed (district Plans) 100 per cent (grant).

There are four Centrally-sponsored projects—Kerala Plantation Corporation, Travancore Tiranium Products, Durgapur coke-oven project and Singareni Collieries, which will receive 100 per cent loan. For schemes relating to the metric system, loans and grants will be 50 per cent respectively.

Roads of inter-State and economic importance will have one-third grant of the total outlay, the remaining two-thirds being shared by participating States. For important bridges, the pattern of assistance will be considered individually. For community listening sets 50 per cent of the cost or Rs 125 per cent, whichever is lower, will be met by Central grants.

Cultural programmes, will be given 100 per cent grant. Under technical education, for regional engineering colleges and development of post-graduate

courses and research, 50 per cent of recurring, and 100 per cent of non-recurring expenditure will be financed through Central grants. For craftsmen training and labour welfare programmes and for schemes relating to welfare of backward classes, the grant will be 60 per cent and 100 per cent respectively.

Under health schemes, the grant component in family planning 90 per cent, indigenous system of medicine (programme of higher education, training and research) 90 per cent, post-graduate medical education 90 per cent, pilot projects for mental health 75 per cent, training of Physiotherapists, occupational therapists and speech therapists 75 per cent (for State Governments) and 100 per cent (for voluntary organisations), establishment of blood banks 50 per cent (for State governments) and 100 per cent (for voluntary organisation), cancer and regional cardiac unit 50 per cent, regional public health laboratories 75 per cent, malaria (equipment and material) 100 per cent, T.B. (supply of drugs) 100 per cent, trachoma 75 per cent, under-graduate medical education (emergency admission) Rs 2,000 recurring and Rs 15,000 non-recurring per seat.

The grants will be as follows: Central social welfare board schemes 85 per cent, special and moral hygiene and after-care services (social defence) 50 per cent, welfare of the handicapped 100 per cent, non-student youth welfare project 100 per cent, pre-vocational training 100 per cent.

For compilation of vital statistics, the component of grant will be 75 per cent, the balance of 25 per cent to be met by the States.

PUBLIC AND PRIVATE SECTOR YIELDS

THERE IS NATIONAL loss of Rs 22 for every Rs 100 of capital used in the public sector in preference to the private sector in the country, according to a study on the performance of Government undertakings carried out by the Economic and Scientific Research Foundation. For every hundred rupees invested in the economy, the private sector contributes on an average Rs 31, as against Rs 9 by the public sector. On the basis of the study, the yearly national loss in industrial output at the end of the Second and Third Plans has been assessed at Rs 588 crores. The Study is based on a detailed examination of the performance, over a seven-year period ending 1964-65, of 32 completed industrial and trade enterprises, accounting for a paid-up capital of Rs 820 crores.

It shows that the public sector undertakings (excluding Hindustan Steel) yield a return on capital of 6.1 per cent, as compared with 19 per cent in the private sector. If Hindustan Steel's results are included, the yield is only about three per cent. As against the progressive rise in investment in the public sector, the income generated per unit of capital employed has been declining since 1958-59, while it has been steadily rising in the private sector industries. In 1958-59, every rupee invested in the public sector produced, on an average, an annual income of 13.4 paise, but in 1963-64, the figure was 10.2 paise (or 7.8 paise if Hindustan Steel's results were included). Taking the economy as a whole, the loss would work out to about Rs 2,000 crores per year, or nearly 10 per cent of the yearly national output.

Mr L. N. Birla, industrialist, claimed on 9.4.1967 that the private sector made a profit of only Rs 3.8 for every hundred rupee worth of goods. Of this, Rs 1.5 was retained by the company for reinvestment and the balance was distributed among a large number of shareholders. 'Would anyone say this is not a fair and equitable distribution of our national product' he asked at the meeting of FICCI. Mr Birla added that the total production in the private sector industries went up from Rs 1,500 crores at the beginning of the first Plan to about Rs 4,000 crores at the end of the Third Plan.

PUBLIC ENTERPRISES LATEST RESULTS

The latest 'progress' report on the public sector enterprises is depressing. An investment of about Rs 3,500 crores in 50 Government undertakings showed a net loss of Rs 35 crores in 1967-68. In a memorandum released by the Finance Ministry, the usual reasons have been cited for this colossal failure—lack of demand, long gestation periods, under-utilisation of capacity, etc. But the main factors seems to have been skipped. The crisis in the public sector in India is essentially a crisis of management. And no measures and guidelines laid down in Government memorandum can be of much help, unless this basic factor is recognised. While the manager in the private sector manages his unit, his counterpart in the public sector merely administers it. So great is the authority of the bureaucratic-secretarial tradition in this country that most public sector organisations follow, officially or otherwise, the practices of the secretarial administration; so much so, that some of them are administered in much the same way as are schools and hospitals. Without the essential milieu of profit-orientation, which provides the main drive for the efficiency and growth of the private sector, the public sector manager is reduced to a mere administrator of rules and procedures and is forced to play for safety. In an increasingly competitive economy, an industrial manager who avoids taking risks and plays for safety, is almost, by definition, a non-manager.

It is, therefore, interesting to learn that the Government has recently taken a number of decisions to bring about improvements in the managerial and operational efficiency of public enterprises. Because large sums of public money are involved, the Government has to maintain a proper balance between financial control and managerial freedom in order to ensure that initiative is not unduly curbed and prudent risk-taking is encouraged. The decision to increase the salaries of top management above the norms is a step in the right direction; so also is the policy to compel the Government officers deputed to public enterprises to choose, once and for all, between their old service and new jobs within a stipulated period. A public sector enterprise must not be looked upon as a mere extension of the controlling Ministry. The sooner, therefore, this umbilical cord is snapped, the better it will be for all concerned. Once the public sector enterprises are permitted to function in their own profit-oriented managerial milieu, then the problem of securing suitable managerial talent should not be as serious as it appears today. Managers are not made overnight; they have to be nursed in a highly stimulating

'hothouse' of managerial activity. Given the proper stimulus, the Government undertakings should be viable enough to attract their share of the managerial talent in the country, and, perhaps, with the consequent increase in their efficiency and profitability, may even keep them in competition with the private sector. Attempts to lure high-salaried managers from the private sector without a simultaneous effort at providing them with the right working climate within the units is self-defeating.

JOINT VENTURES

SEVERAL economic writers and others have suggested that major State enterprises should be run and managed as joint enterprises since there is control of resources on one side and experience and expertise on the other. This would set a new precedent and also ensure efficient use of national resources, some of which are obviously being wastefully used at present. According to the recent Government memorandum, 24 out of 55 enterprises showed a loss of Rs 83 crores. It would harm no one if some of these could be selected for operation in collaboration with the private industries initially on an experimental basis. A number of socialist Governments in Europe are being forced to accept such joint ventures between private industries and State enterprises. Our country is not so rich in resources and managerial talent that the Government can afford to stand on false prestige on this issue.

PUBLIC SECTOR UNITS : PROFITS AND LOSSES

CAPITAL structure of some public sector enterprises may be retionalised. At the end of March, 1968 there were 67 public enterprises excluding those under construction and Life Insurance Corporation of India. In the case of LIC, the surplus as determined by the latest valuation covering the period of two years from April, 1965 to March 31, 1967 amounted to Rs 72.28 crores out of which Rs 68.67 crores had been allotted to policy holders and Rs 3.61 crores to the Government of India. The following is the list of public sector units which have made profits during 1967-68, the profits being given in lakhs of rupees:

Oil and Natural Gas Commission	1,278.5
Indian Oil Corporation Ltd.	1,095.7
Shipping Corporation of India Ltd.	547.6
Air India	254.0
Bharat Electronics Ltd.	211.4
Fertiliser Corpn. of India Ltd.	184.5
Indian Telephone Industries Ltd.	159.3
State Trading Corpn. of India Ltd.	164.3
Hindustan Aeronautics Ltd.	130.6
Bharat Earth Movers Ltd.	106.9
Cochin Refineries Ltd.	117.8
Minerals and Metals Trading Corporation	106.9

Hindusthan Teleprinters	94.0
Mogul Line	49.9
Mazagon Dock	40.4
Hindusthan Cables	35.8
Ashoka Hotel	29.5
Indian Rare Earths	21.9
National Newsprint and Paper Mills	20.0
Fertilisers and Chemicals (Travancore)	19.6
Food Corporation of India	19.6
Engineers India	19.0
Hindustan Insecticides Ltd.	16.9
Garden Reach Workshop	16.2
Sambhar Salts	10.8
Hindustan Housing Factory	7.6
Tungabhadra Steel Products	7.3
Hindustan Shipyard	4.4
Goa Shipyard	4.1
Hindustan Steel Works Construction Corpn.	2.7
National Seeds Corpn.	16.8
Central Warehousing Corpn.	13.6
Indian Motion Pictures Export Corpn.	2.3
Indian Tourism Development Corpn.	2.2
Rehabilitation Industries Corpn.	0.5
Export Credit Guarantee Corpn.	0.2
Film Finance Corporation—marginal profit of Rs 3,000.	

The following are the public sector units which have made losses. The losses are given in lakhs of rupees:

Hindustan Steel Ltd.	3,801.0
Heavy Engineering Corpn.	1,304.6
Neyveli Lignite Corpn.	611.0
Heavy Electricals	562.3
Mining and Allied Machinery Corpn.	544.0
Bharat Heavy Electricals	520.4
Indian Drugs and Pharmaceuticals	23.6
Central Inland Water Transport Corpn.	197.9
Hindustan Photo Films Mfg. Corpn.	151.5
National Mineral Development Corpn.	99.7
Hindustan Machine Tools	69.6
National Coal Development Corpn.	60.8
Indian Airlines Corpn.	38.1
National Project Construction Corpn.	3.0
National Instruments	26.0
Electronics Corporation of India	2.9
Central Road Transport Corpn.	20.2
Central Fisheries Corpn.	12.7
Praga Tools	11.8
Hindustan Salts	9.3
Hindustan Zinc	9.0
National Building Construction Corpn.	7.6
Modern Bakeries (I)	6.8
Janapath Hotels	1.3

National Small Industries Corpn.	0.2
National Research Development Corpn.	2.5
Handicrafts and Handloom Export Corpn.	33.7
Rehabilitation Industries Corpn.	61.5

FINANCES OF PUBLIC ENTERPRISES: 1967-68

As a result of a decade-long drive, the Government units dominate the corporate sector in the Indian economy today. Nine out of top ten companies are public sector units, ranked by total assets. The value of production of 45 Government-owned companies showed a sharp rise of 22.7 per cent in 1967-68. The sales income of these companies also recorded an impressive rise of 23.2 per cent in 1967-68 from Rs 1,139 crores to Rs 1,403 crores. Undoubtedly, this is a highly creditable achievement; yet the existing investment of national resources in these companies cannot be regarded as commercial in view of the returns. The average rates of profitability for the public sector as a whole are small than those of their counterparts in the private sector. The reasons are that the State units are relatively new and they are still operationally inefficient and carry heavier welfare burdens. Even with a nominal rise from 1.9 per cent in 1966-67 to 2.0 in 1967-68 the gross return on total capital employed is very low for Government companies. The high level of inventory in many units, further increase in losses, large inter-unit variations in profitability rates and low rates of interest payments on borrowing from Government are some of the other results. This study of 45 Government companies which have gone into full operation during 1966-67 and 1967-68. However, the four companies, viz. Heavy Engineering, Oil and Natural Gas Commission, NMDC and National Projects Construction Corpn., could not be included in the detailed study due to the non-availability of their annual reports for the year ended March 1968. The total investments in public sector enterprises at the commencement of each of the Five Year Plans are set out below:

	Total Investment (Rs crores)	*No. of units*
A. At the beginning of		
1. First Five Year Plan	29	5
2. Second Five Year Plan	81	21
3. Third Five Year Plan	953	48
B. As at the end of		
4. 31-3-1966	2,415	74
5. 31-3-1967	2,841	77
6. 31-3-1968	3,333	83

Of the total investment of Rs 3,333 crores, the equity capital accounted for Rs 1,633 crores and long-term loans for Rs 1,700 crores. The investment made by parties other than Central Government amounted to Rs 303.3 crores. The total foreign investment was Rs 272.8 crores of which Rs 14.1 crores were in equity

and the balance in loans. The share of State Governments amounted to Rs 8.6 crores and that of other Indian private parties amounted to Rs 21.9 crores.

Sales income of 41 companies went up from Rs 1,090 crores to Rs 1,341 crores in 1967-68. Among the companies sharing rise in sales, IOC accounted for an increase of Rs 92.6 crores. The sales of State Trading Corporation and Hindustan Steel showed a rise of Rs 39.8 crores and Rs 20.8 crores respectively. Raw materials consumed and other manufacturing expenses showed a rise of Rs 113.3 crores in 1967-68. Salaries and wages rose from Rs 138.9 crores to Rs 168.0 crores. Excise duty in 1967-68 was higher at Rs 190.1 crores, compared with Rs 151.8 crores in the previous year.

The gross profits of the 41 companies improved from Rs 48.7 crores to Rs 66.8 crores in 1967-68. Interest paid by these 41 companies stood at Rs 75.0 crores against Rs 53.2 crores in the preceding year. These companies together incurred a loss of Rs 23.6 crores (after providing for tax) in 1967-68 against Rs 16.6 crores in 1966-67. The loss has been mainly attributed to Hindustan Steel (Rs 37.5 crores), Heavy Electricals (Rs 5.8 crores), Neyveli Lignite Corporation and Bharat Heavy Electricals (Rs 5.6 crores each). Of these 41 companies, many companies declared dividends, amounting to Rs 8.9 crores. The rate of dividends varied from 5 per cent to 15 per cent. Substantial profits have been earned by IOC, Fertilizer Corporation, the STC, Shipping Corporation and Bharat Electronics. The overall profitability rates for the public and private sectors for two years are:

	Government Companies		*101 Industrial giants*	
	1966-67	*1967-68*	*1966-67*	*1967-68*
Gross profits as % of sales	4.5 (4.9)	5.0 (4.8)	11.8	10.5
Gross profits as % of total assets	1.8 (1.9)	2.2 (2.0)	10.8	9.7
Net profits as % of net worth	–1.6 (–1.0)	–2.2 (–2.3)	11.4	9.9

Figures in brackets relate to 45 companies.

All the profitability rates for the public sector companies were lower than those of the private sector. Of course, the picture will be slightly different in Hindustan Steel is excluded. In the case of private sector all the profitability rates showed a decline in 1967-68 compared to the previous year. Contrary to this the gross return on sales and total capital employed of the 41 public sector units showed a rising trend in 1967-68 compared to the previous year. Their total assets at the end of 1967-68 amounted to Rs 3,082 crores, of which Hindustan Steel alone accounted for one-third (Rs 1,098 crores). The gross block of all the 41 companies stood at Rs 2,426 crores and the net block at Rs 1,853 crores. The corresponding figures for Hindustan Steel stood at Rs 1,079 crores and Rs 786 crores, respectively. The accumulated depreciation for Hindustan Steel alone was Rs 293 crores, while

for the remaining 40 units it was Rs 281 crores. The investment made by these companies, almost entirely in Government securities, totalled around Rs 11 crores at the end of 1967-68.

Some of the Government of India undertakings have very large accumulation of inventories in relation to their turnover. A few exceptionally high cases are cited below:

	Inventories as percentage of sale*
1. Hindustan Salt	371.4
2. Tungabhadra Steel Products	293.4
3. Hindustan Aeronautics	270.0
4. Heavy Electricals	217.9
5. National Instrument	187.4
6. Hindustan Shipyard	127.3
7. Praga Tools	111.2

* Average of inventories at the beginning and at the end of 1967-68.

The total inventories of the 41 companies amounted to Rs 660 crores at the end of 1967-68. Considering the normal practice, it appears that there is scope for cutting down the inventory at least by about 25 per cent, i.e., roughly by about Rs 165 crores. This would result in a large saving of the inventory carryover charges and, consequently, boost up the profits. Moreover, the money thus released can be diverted for other investments. The total paid-up capital of these companies amounted to Rs 1,151 crores (37.3 per cent of the total liabilities). Borrowings at Rs 1,356 crores formed a prominent part of the total liabilities. Of this, loans from Government alone amounted to Rs 1,130 crores. The gross capital formation in these 41 units amounted to Rs 436 crores of which Hindustan Steel accounted for Rs 85 crores. All these companies together showed an inventory accumulation of Rs 137 crores. All the external sources together contributed 82.8 per cent of the total funds available for expansion during 1967-68. Of the total borrowings of Rs 149 crores available for assets formation during 1967-68, loans from Government alone amounted to Rs 140 crores. Depreciation as a source of internal finance for the 41 companies amounted to Rs 110 crores.

The rates of capital formation for the public and private sectors during 1967-68 are indicated below:

	Public Sector	*Private Sector*
1. Total assets formation	11.8	9.9
2. Gross fixed assets formation	11.7	9.1
3. Inventory accumulation	26.1	11.5
4. Capital formation	12.6	9.6

All the capital formation rates for the public sector are higher than those of the private sector during 1967-68. Notwithstanding the higher growth rate of

public sector undertakings and the various advantages over the private sector, the profits and profitability of the Government companies are far from satisfactory. In assessing the performance of public sector enterprises, no generalisation is possible. It should be remembered that the public enterprises, as a group, are not at the same stage of development. Most of the running concerns are also in the process of implementing substantial expansion schemes. Now it is recognised that every effort should be made to improve the profits and efficiency of these units. The industries, in which the major portion of investment has been made, are highly capital intensive; entailing long gestation period. The investments in important industries are given below:

(Rs crores)

1. Iron and Steel	11,80
2. Engineering	8,33
3. Chemicals	3,50
4. Petroleum	3,78
5. Minerals and Metals	2,73

When these projects were set up, their capacities were based on certain demand projections, which did not materialise. It is hoped that with the recovery in the economy, the position would improve. In the meantime, measures taken to bring about better utilisation of capacities should improve the working results.

IDBI OPERATIONS

The IDBI, a wholly-owned subsidiary of the Reserve Bank of India, has an authorised capital of Rs 50 crores, which may be raised to Rs 100 crores, and an issued capital of Rs 10 crores, which may also be increased. This has been supplemented by a 30 year interest free loan of Rs 10 crores from the Central Government. To augment its resources, the Bank can sell bonds, obtain deposits from the public, and borrow from the Reserve Bank or other sources under conditions prescribed.

The Industrial Development Bank of India recently announced that it would offer rediscounting facilities for financing deferred payment sales of all indigenous machinery manufacturing industries from November 15, 1966. The maximum rediscount of transactions with a single purchaser during a year will be Rs 25 lakhs and the minimum Rs 50,000. A special minimum has been prescribed for agricultural implements. Currently, IDBI offers rediscounting facilities for financing sales of indigenous machinery on deferred payment basis in respect of cotton, silk and art silk, jute, cement, sugar, paper and agricultural implements. Announcing the expansion of coverage to all industries, IDBI states in a press note that the maximum rediscount limit (Rs 25 lakhs) has been prescribed with a view to preventing 'diversion of larger projects suited for direct assistance to bills rediscounting'. The limit seeks to ensure that assistance under the rediscounting scheme is 'medium-sized'. Rediscounting of bills for more than Rs 25

lakhs relating to any single purchaser, over a year, will require 'prior clearance' with the IDBI before the rediscounting facilities are extended to such transactions. Deferred payment sales involves the issue of bills and promissory notes by purchasers. Sellers get the bills and promissory notes discounted by financing institutions approved by IDBI.

Such approved institutions, including scheduled commercial banks, the Industrial Finance Corporation of India, the Madras Industrial Investment Corporation Ltd., all State Finance Corporations and 8 State Co-operative Banks, in turn, get the bills or promissory notes rediscounted with IDBI. In order to alleviate the higher incidence of effective interest on bills of longer maturities, the IDBI's rediscount rate was reduced from 6.50 per cent per annum to 6 per cent, on March 1, 1966, for bills or promissory notes having unexpired usance of over 6 months but upto 36 months and 5.50 per cent on bills or promissory notes having unexpired usance of over 36 months but upto 60 months. The lower rates are given to the financing institutions only if their discount rates, in turn, are not more than 2 per cent above the respective IDBI rediscount rates. In other cases, the rediscount rate is 6.50 per cent. In over four-fifths of the bills rediscounted by banks between March 1, 1966 and October 31, 1966, banks have extended the discounting facility at the lower rates stipulated by the IDBI. So far, bills worth Rs 5 crores have been rediscounted by IDBI.

During 1966-67, the assistance sanctioned by the Bank showed some decline, following the substantial step-up of activity in 1965-66. Total sanctions (gross) declined from Rs 70.1 crores in 1965-66 to Rs 64.2 crores in 1966-67 as a result of a decline in assistance sanctioned in the form of refinance, direct loans and underwriting of shares and debentures, which was partly offset by increases under rediscounting and subscriptions to shares and bonds of financial institutions. Guarantee assistance sanctioned during the year was also smaller than in 1965-66. There was, however, an increase in assistance disbursed from Rs 51.1 crores in 1965-66 to Rs 59.3 crores. Disbursals under direct assistance, subscriptions to shares and bonds of financial institutions as well as rediscounts registered increases; those under refinance, however, recorded some decline.

Aggregate sanctions (excluding guarantees) since the inception of the Bank now amount to Rs 184.8 crores and aggregate disbursals Rs 134.3 crores. Effective sanctions under the various forms of assistance amounted to Rs 177.1 crores as on June 30, 1967. Assistance outstanding at the end of the year stood at Rs 144.3 crores and outstanding commitments at Rs 53.3 crores. In addition, guarantee assistance for Rs 34.2 crores was sanctioned upto the end of June 1967.

In the refinance wing, the IDBI continued to operate three schemes, viz., (*i*) scheme for refinancing of industrial loans, (*ii*) scheme for refinancing of export credits, and (*iii*) the Government of India's scheme for guarantee of advances made by specified financial institutions to collieries in the private sector. During 1966-67, there was a sharp decline both in the number of applications received for refinance and in the quantum of refinance sought. Partly as a result of this, both the number of applications and the amount of assistance sanctioned recorded

declines. Disbursement of refinance also declined during the year. Institution-wise, the share of commercial banks in the refinance sanctioned increased from 69.7 per cent in 1965-66 to 72.7 per cent in 1966-67. As against this, the share of State Financial Corporations (SFCs) declined from 30.3 per cent to 23.9 per cent. Roughly 80 per cent of the refinance sanctioned was for periods ranging between 5 and 10 years, 14 per cent for periods of 10 years and above, and 6 per cent for periods below 5 years. Industry-wise, the units assisted covered a wide range, including textiles, coal, iron-ore, chemicals and chemical products, basic metal industries, manufacture of machinery and transport equipment, rubber products, etc.

An important development during the year was the reduction in the rate for refinance of industrial loans from 6½ per cent to 6 per cent effecting July 1, 1967, provided the institution availing of refinance did not itself charge on its corresponding loan more than 8½ per cent per annum. Under the scheme for refinancing of medium-term export credits, the Bank sanctioned during the year 4 applications for Rs 79 lakhs, which was subsequently reduced to Rs 58 lakhs at the request of the financial institutions concerned, bringing the total number of applications sanctioned till the end of June 1967 to 9 and the amount of effective sanctions to Rs 1.5 crores. The amount disbursed during the year was Rs 37 lakhs.

Under the scheme for guarantee of advances to private sector coal industry, the Bank issued during the year 3 guarantees for Rs 5.8 lakhs, bringing the total number and amount of guarantees issued since the inception of the scheme in April 1963 upto the end of June 1967 to 52 and Rs 4.0 crores, respectively.

The IDBI, as an apex institution, also provided assistance to other term-financing institutions through subscriptions to their bonds and shares. During the year, the Bank contributed Rs 6 crores to the special debentures of the ICICI, representing Government's budgetary assistance to that institution. It took up bonds of the value of Rs 1.1 crores, issued by the Andhra Pradesh, Kerala, Maharashtra, Mysore, Orissa and Uttar Pradesh State Financial Corporations and the Madras Industrial Investment Corporation Ltd. (MIIC), besides contributing Rs 25 lakhs and Rs 6.25 lakhs to the share capital of the MIIC and the Jammu and Kashmir State Financial Corporation, respectively. The amount subscribed by the IDBI since its inception to the shares and bonds of the SFCs aggregated Rs 5.2 crores at the end of June 1967.

As regards direct financial assistance, the IDBI received during the year 71 applications from 46 industrial concerns for Rs 100.2 crores, of which it sanctioned assistance on 33 applications in respect of 25 industrial concerns for Rs 33.8 crores, comprising 19 loans for Rs 23.7 crores, 10 underwriting arrangements for Rs 2.3 crores and 4 guarantees for Rs 7.9 crores. This assistance is inclusive of the additional loan assistance of Rs 4 crores sanctioned to a fertiliser project out of the Development Assistant Fund (DAF). During 1965-66, the IDBI had sanctioned direct assistance on 49 for Rs 59.6 crores. As in the preceding year, the bulk of the direct assistance sanctioned during the year was in the form of loans. A part of the assistance was in response to requests from industrial units for finance

to meet the over-runs in project cost arising from devaluation, inflation in the economy, delays in implementation, etc.

The aggregate cost of the 24 projects for which direct financial assistance was sanctioned by the IDBI during 1966-67 amounted to Rs 303.6 crores. The total assistance sanctioned by the IDBI (excluding guarantees) amounted to Rs 22.0 crores, which represented 7.2 per cent of the project cost, whereas in 1965-66 the corresponding figure was 13.5 per cent. Some of the projects, which were assisted earlier, were sanctioned additional assistance. Inclusive of assistance sanctioned earlier, total assistance sanctioned by the IDBI to these 34 projects aggregated Rs 36.1 crores, which represented 11.9 per cent of the project cost.

The IDBI's share of assistance in the cost of individual projects varied from 1.9 per cent to 50 per cent. It exceeded 15 per cent in 8 of the 24 projects and was less than 5 per cent in the case of 3 projects. The contribution of the promoters and foreign collaborators to the project cost was mostly in the range of 15-30 per cent. It was 20 per cent or more in the case of 11 projects and only in 6 cases was it below 15 per cent.

The direct assistance sanctioned during 1966-67 included 19 loans for an aggregate amount of Rs 23.7 crores. Of these, loans sanctioned to 3 large projects accounted for Rs 13.7 crores or 57.7 per cent of the total, while 6 loans for amounts less than Rs 50 lakhs each accounted for Rs 1.3 crores or 5.7 per cent. The remaining 10 loans were in the middle range of Rs 50 lakhs and Rs 2.0 crores and accounted for Rs 8.7 crores or 36.6 per cent. This size classification of loans highlights the IDBI's role in financing projects which are too large for any of the other term-financing institutions to assist substantially. Total disbursals during 1966-67 in respect of loans aggregated Rs 20.7 crores, as compared to Rs 19.9 crores in the previous year.

Underwriting accounted for 10 out of the 33 applications for direct financial assistance sanctioned by the IDBI during the year, the amount underwritten being Rs 2.3 crores, comprising Rs 1.3 crores of ordinary shares and Rs 1.0 crore of preference shares, as compared to Rs 7.5 crores on 22 applications sanctioned in 1965-66. Total disbursements in 1966-67 in respect of underwriting assistance aggregated Rs 5.2 crores. Underwriting by the IDBI was mostly in participation with one or more of the other financial institutions.

Since its inception, the IDBI has underwritten shares and debentures for Rs 16.3 crores in respect of 57 projects. Of these, 45 issues involving a commitment of Rs 8.8 crores of ordinary shares, Rs 2.2 crores of preference shares and Rs 1.3 crores of debentures and convertible notes have so far entered the market. Of the underwriting operations involving a commitment of Rs 12.4 crores already completed, Rs 8.2 crores of equity shares, Rs 2.1 crores of preference shares and Rs 1.3 crores of debentures and convertible notes devolved on the IDBI; this represented 93 per cent, 94 per cent and 100 per cent respectively, of the amounts underwritten by the IDBI. The amount paid in respect of shares and deben-

tures devolving on the IDBI aggregated Rs 11.0 crores upto the end of June 1967.

During 1966-67, the IDBI sanctioned 4 guarantees for foreign loans and deferred payments for Rs 7.9 crores in respect of 3 concerns. Two of these guarantees were sanctioned in participation with other financial institutions, including commercial banks, the share of the IDBI being tentatively fixed at Rs 5.3 crores. Since its inception, the IDBI has sanctioned 10 guarantees for Rs 28.9 crores of which 4 guarantees for Rs 12.6 crores have been executed.

The IDBI's scheme for rediscount of usance bills arising out of sales of indigenous machinery on deferred payments basis, introduced in April 1965, which was initially applied to bills pertaining to a few selected industries, was extended to all machine-making industries, effective November 15, 1966. However, to prevent diversion of such assistance to large projects, the practice was adopted that in the case of arrangements involving rediscounting of bills for more than Rs 25 lakhs relating to any single purchaser, over a year, prior clearance should be obtained from the IDBI. At the same time, to extend the benefit of the scheme to a larger segment of small purchasers, the minimum amount of a transaction covering a set of bills representing deferred payment sales was reduced from Rs 1 lakh to Rs 50,000 generally, and to Rs 15,000 in the case of agricultural implements.

During 1966-67, 10 banks availed themselves of the facility under this scheme to the extent of Rs 7.1 crores as compared to Rs 2.2 crores availed of by 7 banks during 1965-66. Disbursals under the scheme aggregated Rs 6.1 crores, as against only Rs 1.9 crores during the previous year. The bills rediscounted textiles (Rs 6.4 crores) and sugar machinery (Rs 63 lakhs), reflecting the extent of reliance of these two traditional industries on this facility for purposes of modernisation and expansion. The total outstanding assistance under the scheme was Rs 8.2 crores as at the end of June 1967.

As regards the industrywise distribution of direct financial assistance (i.e. loans, underwriting and rediscounts), the pride of place was taken by fertilisers, basic metals and machinery industries, the 3 together accounting for 80.8 per cent of the total sanctions. In 1965-66, besides fertilisers, chemicals and cement had figured prominently. The substantial increase in assistance to the machinery industries was due to the stepping up of operations during the year under the rediscounting scheme. Under the scheme for participation in industrial loans and guarantees introduced on April 1, 1966, the IDBI sanctioned assistance to one industrial unit for Rs 83 lakhs in participation with a commercial bank, the IDBI's share being 65 per cent of the total assistance sanctioned (Rs 54 lakhs).

The IDBI's operational policies, are kept constantly under review and changes made from time to time to suit the needs of the changing situation. The operational policies were examined in October 1966 and it was considered that, in the prevailing context, it was necessary for the financial institutions to adopt a more selective approach in sanctioning assistance to ensure the optimum use of the available funds. While insisting on maximum contribution from the promoters, it

was also considered necessary to lay emphasis on maximum self-financing by the companies concerned. The approach of selective financing was to be focused on more balanced regional development, encouragement of new entrepreneurs and regulation of the flow of assistance to projects sponsored by various promoter-groups by considering the schemes of promoter-groups as a whole rather than individual projects only.

In the second half of the year under review, there were indications that the resources available to the IDBI and other all-India term-financing institutions during the ensuing year would be smaller than in 1966-67. In view of the anticipated tight resources position, suitable changes in policies were initiated in advance. A stricter application was made of the principle of priorities and financial assistance was confined more and more to top priority industries. Efforts were intensified to secure the maximum practicable contribution from the promoters. The co-operation of commercial banks was enlisted on a larger scale than hitherto, in the matter of providing loans and guarantees and underwriting of capital in important projects involving large expenditure. In two important fertiliser projects, although initially large assistance was sanctioned by the IDBI, the bulk of it was subsequently taken up by a consortium of commercial banks organised under the leadership of the IDBI, besides other term-financing institutions. In respect of refinance, there was some slowing down of assistance to relatively large projects involving refinance exceeding Rs 50 lakhs, though the interests of small and medium-sized industrial units and the underdeveloped regions were kept actively in view.

During the year, the Bank had close working relationship with the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India Ltd. (ICICI), the Life Insurance Corporation of India (LIC) and several commercial banks in organising financial assistance to industrial projects in different forms. The monthly Inter-Institutional meetings of the senior executives of the IDBI, the IFCI, the ICICI and the LIC, which were initiated by the Bank in September 1965, were continued. During 1966-67, the IDBI initiated follow-up action to ascertain the progress made in implementation by the assisted companies from time to time and to have a better appreciation of the problems facing them. The IDBI has so far disbursed assistance to 60 companies, of which 9 companies have completed their projects and another 20 have taken trial runs and have commissioned a part of their production capacity. During the year, 21 assisted companies were inspected and appropriate action was taken, where necessary, in the light of the findings of the inspection reports.

The Report also covers the operations of the Development Assistance Fund (DAF), a Special Fund established under the IDBI Act to assist industrial projects which are of strategic importance to the economy but which involve more than ordinary risk in financing, owing to low yield or unduly long gestation period or unusually heavy investment. During 1966-67, the IDBI sanctioned, out of this Fund, additional loan assistance of Rs 4 crores to the Gujarat State Fertilisers Company Ltd., to meet the escalation in project cost arising from the devaluation

of the rupee, the total assistance sanctioned since the inception of the Fund in March 1965 upto the end of June 1967 amounting to Rs 32.8 crores. Disbursal of assistance from the Fund amounted to Rs 14.4 crores during the year and Rs 26.1 crores since inception. During the year, the Bank borrowed from the Central Government for credit to the Fund an aggregate amount of Rs 14.0 crores, bringing the total borrowings till the end of June 1967 to Rs 26.3 crores.

The IDBI's resources during the year continued to be mainly derived from loans from the Central Government and the Reserve Bank. During the year, the IDBI borrowed from the Government Rs 34.6 crores, of which Rs 14.0 crores were for credit to the DAF. As at the end of June 1967, total borrowings from the Government aggregated Rs 127.5 crores, including Rs 26.3 crores borrowed for credit to the DAF. The IDBI borrowed Rs 1.4 crores from the Reserve Bank, out of its National Industrial Credit Fund for subscribing to the shares and bond issues of State Financial Corporations, such borrowing amounting to Rs 5.2 crores as on June 30, 1967. The Reserve Bank also subscribed a further sum of Rs 10 crores to the share capital of the IDBI, thus raising it to Rs 20 crores. Repayment of refinance loans brought in Rs 10.6 crores and rediscounts Rs 1.1 crores during the year.

A feature of the Report is the publication of data on aggregate financial assistance provided by the major financial institutions as well as the main sources of funds for financing their operations during the financial year 1966-67 and during the Third Plan period. Total financial assistance sanctioned by the IDBI, the IFCI, the ICICI, the SFCs and the State Industrial Development Corporations declined from Rs 169.3 crores during 1965-66 to Rs 126.7 crores during 1966-67. There was however, a considerable stepping up in the disbursal of assistance from Rs 107.1 crores in 1965-66 to 123.7 crores in 1966-67.

In conclusion: while the IDBI, together with other term-financing institutions, will continue to play a significant role in the financing of industry, their contribution can at best be only a subsidiary one. A large part of the working funds of term-financing institutions for provision of finance to industry in the private sector is derived from the Central Government. In the final analysis, the resources for both the public and private sectors of industry have to come from the common pool of savings and a delicate balance has to be achieved between the needs and resources of the two sectors. This renders difficult the diversion of large funds from the public to the private sector and a substantial increase in the contribution of term-financing institutions to industry in the private sector. It is of utmost importance, therefore, that promoters of industries themselves should make a substantial contribution to the project cost. It is also necessary that for expansion and diversification, there is self-financing by established industrial companies to the extent possible, through internal surpluses and the issue of rights shares. In keeping down capital and operating costs and in maximising surpluses, improved productivity and fuller utilisation of capacity could play a vital role.

During 1966-67, the total income of the Banks General Fund amounted to Rs 6.43 crores and total expenditure Rs 4.37 crores. Of the excess of income

TABLE 111

OPERATIONS OF IDBI SINCE ITS INCEPTION UPTO DECEMBER 1966

(Rs crores)

Item	*Net Sanctions*	*Disbursements*	*Assistance Outstanding*	*Pending Commitments*
Refinance (including export credits)	56.1 (105.6)*	52.5 (90.7)*	67.7†	14.9
Direct loans to Industrial units	65.2	31.6	31.6	33.5
Underwriting	15.9	8.8	8.8	6.0
Subscriptions to shares and bonds of term-lending institutions‡	10.0	8.0	8.0	2.0
Rediscounting of Bills	5.7§	5.7	5.3	...
Guarantees	20.4	...	...	20.4
Total	173.3	106.6	121.4	76.8

* Figures in the brackets show the sanctions and disbursements inclusive of the operations of RCI.

† Includes refinance sanctioned by the former Refinance Corporation and outstanding today.

‡ Purchase of IFCI shares worth Rs 4.17 crores is excluded.

§ Assistance disbursed is taken as assistance sanctioned.

	1964–65	1965–66
Gross profits as % of operating income	9.9 (10.0)	9.8 (11.7)
Gross profits as % of total Capital employed	4.4 (10.3)	3.9 (11.3)
Profits after tax as % of net worth	5.3 (9.3)	6.0 (10.8)

	1964–65	1965–66
Tax provision	20.7	3.0
Dividends	45.9	50.2
Retained Profits	33.4	46.8
	100.0	100.0

over expenditure of Rs 2.06 crores, Rs 1.70 crores were credited to the Reserve Fund, raising the Fund to Rs 3.76 crores at the end of June 1967. The balance of Rs 36.1 lakhs was transferred to the Reserve Bank of India, the amount transferred in the previous year being Rs 26.4 lakhs. The Development Assistance Fund showed a profit of Rs 37.2 lakhs

IDBI'S NEW ROLE

IT IS gratifying to note that the Industrial Development Bank of India has now realised that its true role lies in the promotion and development of industries rather than merely providing capital. This realisation, however, has come not

out of any fundamental re-thinking but out of a necessity to find a purposeful utilisation of its surplus funds. The total amount of assistance sanctioned by it (by way of direct loans to industrial concerns, underwriting, refinance, etc.) had steadily declined from Rs 70 crores in 1965-66 to Rs 44 crores in 1967-68. Of this, direct loans had fallen from about Rs 36 crores to Rs 17 crores and refinance from about Rs 23 crores to Rs 10 crores. What is more, there was no occasion during 1967-68 for the IDBI to sanction any fresh loan out of its Development Assistance Fund.

The low level of assistance during 1967-68 was attributable to the recessionary tendencies in certain industries and the consequent decline in new investment activity in the private sector. Even so, the fact cannot be overlooked that the IDBI was more concerned with assisting big projects and thus making a quicker utilisation of its funds than with widening its activities over as broad a front as possible. It was towards the close of the year ended June 1968 that the IDBI felt the necessity for modifying its policy (of giving attention to applications which satisfied the strict tests of priority) and making finance available on a more liberal scale to a larger number of medium and small-medium projects.

If this welcome policy change were to have its desired effect in stimulating investments in new industrial projects or additional investments in existing projects, the IDBI should have modified its direct lending operations. But this was not done. Instead, it was merely satisfied with liberalising its schemes of refinance and rediscount assistance by lowering not only the rates of interest thereon but also the minimum limits for such facilities. It has now decided to modify its rediscounting scheme so as to bring down the ultimate cost to the borrowers. This is being done not by reducing its rediscount rate but by fixing the maximum discount rates of approved banks under the scheme at one per cent above its own rediscount rate instead of 2 per cent as at present. These indirect benefits will not be of any avail unless the commercial banks and other financial institutions which get these facilities are able to extend their operations. Unfortunately, despite the recovery in the economy during the past one year, the investment activity in new projects has not picked up to any worthwhile extent, with the result that financial institutions are burdened with surplus resources. Whatever investment activity there is, is taken care of by State Financial Corporations and State Industrial Development Corporations.

One reason why the IDBI has not been able to attract medium and small-scale projects is that its procedures are rigid and cumbersome. Such rigidities were introduced at a time when the demand for industrial capital was far in excess of supply, but the situation has so completely changed that development banks can no longer sit idly by, while awaiting borrowers to come to them. It is this realisation that has made the IDBI think of opening branches in Calcutta, Madras and other regional centres. But the mere opening of offices will not serve any purpose unless the IDBI makes a promotional approach by setting up cells for technical, management and marketing advisory services for the benefit of new entrepreneurs, however small they may be. In other words, it should be able to

draw up industrial projects and assess their feasibility and financial viability on behalf of the entrepreneurs. There should also be a fundamental change in the concept of credit-worthiness. No entrepreneur should be denied assistance, however, obscure and however small he may be, so long as his project seems an economic proposition. The success of the IDBI's scheme for stimulating developmental activity depends also on the close liaison it establishes between itself and other financial institutions and State directorate of industries. More than anything else, the IDBI should bring down its own lending rate for direct loans. This will go a long way in ensuring the success of its schemes and a purposeful utilisation of its surplus resources.

OTHER TERM-FINANCING INSTITUTIONS

The Industrial Finance Corporation of India, established under an Act of Parliament, in July 1948, has been giving assistance in the form of advances and long-term loans to industrial concerns. The Act was amended in 1957 and again in December 1960 with a view to enlarging and diversifying the assistance provided by the Corporation. The 1960 amendment, along other things, empowered the Corporation directly to subscribe to the shares of industrial concerns. Since its inception, upto the end of March 1961, the total net financial assistance sanctioned by the Corporation amounted to Rs 190.5 crores. Loans totalling Rs 119 crores had been actually disbursed. The State Financial Corporations assist medium and small scale industries which do not fall within the scope of the all-India corporation. The total amount of effective loans sanctioned by them in 1963-64 was Rs 17.9 crores (Rs 19.4 crores in the preceding year). Disbursements, however, were comparatively higher at Rs 12.5 crores (Rs 11.7 crores in 1962-63).

During the calendar year 1963 the Industrial Credit and Investment Corporation of India, set up in January 1955 to assist industrial enterprises in the private sector, sanctioned gross assistance of Rs 24.9 crores (Rs 19.6 crores in 1962). Disbursement (including foreign currencies) amounted to Rs 10.8 crores (Rs 9.9 crores in 1962). Since its inception up to the end of 1963, the Corporation had sanctioned aggregate assistance of Rs 83.20 crores to 248 companies including 105 new undertakings. The Refinance Corporation for Industry Ltd., was set up in June 1958 to provide re-lending facilities against loans given by banks to industrial concerns for the purpose of increased production primarily in industries included in the Plan. Its business was taken over by the Industrial Development Bank from September 1964.

The National Industrial Development Corporation was set up in 1954, to act, among other things, as an agency of the Government for the grant of special loans for the rehabilitation and modernisation of the cotton textile and jute industries and for expansion of machine tool units. Till the end of October 1965, loans amounting to Rs 28.02 crores were sanctioned by the NIDC to these industries, out of which Rs 16.77 crores were disbursed. On the recommendation by the Estimates Committee, the Corporation has stopped to entertain fresh applications

for loans, and only such cases as are in an advanced stage of processing are considered for loans. The Corporation has also started supply of machinery to the cotton and jute textile industries on hire-purchase basis, and had granted over Rs 3 lakhs as assistance up to the end of October 1965, under this Scheme. The Industrial Development Bank of India (IDBI) was set up in July 1964, as an apex institution co-ordinating the operations of other institutions providing term finance to industry as well as an agency providing direct financial assistance to industrial units. It has also been conceived as a developmental agency to locate and fill gaps in the industrial structure, and it can undertake promotional activities like marketing, investment research surveys, techno-economic studies, and give technical and administrative assistance to any industrial enterprise for promotion, management or expansion.

The Unit Trust of India Act, 1963, came into force from February 1964. The Trust has an initial fund of Rs 5 crores contributed by the Reserve Bank, the State Bank, the LIC and financial institutions giving loans to industry. Managed by a board of trustees comprising nominees or representatives of these bodies, the Trust aims at encouraging savings by providing facilities to various classes of investors for investment in units of the face value of Rs 10 in shares and other securities. The units were put on sale from July 1, 1964, sold at face value till August 14, and thereafter at prices fixed daily by the Trust. From November 16, 1964, the Trust has also been repurchasing the units at prices determined from day to day. The Trust sold units worth over Rs 19.13 crores during the year ending June 1965; units offered for repurchase accounted for 2.1 per cent of those sold. Income distribution for the year was 6.1 per cent to unit holders and 3 per cent to subscribers of initial capital. Income up to Rs 1,000 is exempt from income tax.

The Government assist the private sector by facilitating the import of essential raw materials and basic intermediates, offering tax concessions and protecting new industries in the first few years. The statutory Tariff Commission, established in January 1952 in place of the previous non-statutory Tariff Board, has been reviewing the progress of protected industries and examining new cases for protection. Efforts have been made to secure technical help from the industrially advanced countries either under the international technical assistance schemes or through direct negotiations.

FINANCES OF SHIPPING COMPANIES

THE FINANCIAL RESULTS of shipping companies witnessed a set-back during the year 1965-66 compared with the previous year. Despite a nominal rise in operating income, pre-tax profits showed a small decline during 1965-66. The profitability rates for the shipping industry have shown violent fluctuations during the last fifteen years. For most of the years these were far below the average for 'all industries'. There was some improvement in 1964-65, in spite of which the rates of return were considerably low for this industry. During 1965-66, the rate of capital

formation was satisfactory, but the expansion was financed to a great extent by borrowings. This survey relates to the finances of 10 shipping companies, which in terms of paid-up capital account for about 75 per cent of the public limited shipping companies in the private sector. The study is based upon the annual reports and published accounts of these companies for the years 1964-65 and 1965-66. Data shown against periods ended during July 1965 to June 1966. The combined income, expenditure and appropriation account of these companies is shown below the operating income of the 10 companies increased from Rs 38.5 crores to Rs 39.4 crores—an increase of 2.3 per cent only. Operating expenses showed a rise of Rs 0.8 crore to Rs 21.9 crores in 1965-66. Salaries and wages rose from Rs 565 lakhs in 1964-65 to Rs 575 lakhs. Depreciation provision was Rs 467 lakhs—around the previous year's level. Interest charges rose from Rs 131 lakhs to Rs 141 lakhs in 1965-66. The gross profits of all these companies together showed a nominal rise of Rs 4 lakhs to Rs 387 lakhs. Pre-Tax profiting at Rs 235 lakhs showed a fall of Rs 9 lakhs. Tax provision for 1965-66 amounted to only Rs 7 lakhs compared with Rs 51 lakhs in the preceding year. Though dividend distribution improved in absolute terms, as a percentage of profits after tax, it worked out lower at 51.8 per cent in 1965-66, against 58.0 per cent in the preceding year.

Profitability: The usual profitability rates of the industry are indicated below in respect of two years covered by a study.

	1964–65	1965–66
Gross profits as % of operating income	9.9	9.8
	(10.0)	(11.7)
Gross profits as % of total capital employed	4.4	3.9
	(10.3)	(11.3)
Profits after tax as % of net worth	5.3	6.6
	(9.2)	(10.8)

Figures in brackets indicate the corresponding profitability rates for all industries R.B.I. data for 1,333 companies for 1964-65 and the *Economic Times* data for 101 industrial Giants for 1965-66. All the profitability rates were considerably lower than the averages for all industries during the two years covered by a study. The tax provision, dividends and retained profits (for 101 companies) are expressed as a percentage of profits before tax and shown below:

	1964–65	1965–66
Tax provision	20.7	3.0
Dividends	45.9	50.2
Retained Profits	33.4	46.8
	100.0	100.0

Dividends formed a higher proportion of 50.2 per cent of pre-tax profits in 1965-66, against 45.9 per cent in 1964-65. As tax provision absorbed only

3.0 per cent of pre-tax profits against 20.7 per cent in 1964-65, the proportion of ploughed back profits was obviously higher at 46.8 per cent in 1965-66 against 33.4 per cent in the preceding year. Of the total liabilities of Rs 100 crores, net worth formed nearly two-fifth. Borrowings from Government were large at Rs 27 crores, being more than half of the total borrowings. The gross block stood at Rs 97 crores, of which the cost of fleet alone amounted to Rs 94 crores. Investments stood at Rs 2.8 crores in 1965-66, against Rs 3.5 crores in the previous year. Cash and bank balances were Rs 16.7 crores compared with Rs 13.4 crores in 1964-65. Investments in fixed assets (gross) amounted to Rs 7.9 crores during 1965-66. Cash and bank balances accounted for Rs 3.3 crores. Fresh capital from market provided only Rs 8 lakhs against a total of Rs 15.2 crores used for expansion purposes during the year. Depreciation and free reserves and surplus together provided for Rs 3.3 crores, towards financing the expansion. All the external sources together contributed 79.8 per cent of the total finances used for assets formation. Borrowings alone amounted to Rs 10.5 crores. The rate of increase in total assets worked out at 15.1 per cent. Gross fixed assets increased by 8.9 per cent. The rate of growth of this industry during 1965-66 should be termed as quite satisfactory.

FINANCING SMALL SCALE INDUSTRIES

The Union Minister for industries recently said that the necessary formalities to extend the credit guarantee scheme to all units with capital assets of less than Rs 7.50 lakhs under the revised definition of small industry would be completed shortly in consultation with the Reserve Bank and the State Bank. The import requirements of the small-scale units in the non-priority sector would also be met on the same basis as their counterparts in large scale sector, though the produce for this was still under consideration. The import requirement of the 59 priority industries, which accounted for about four-fifths of the industrial production would be met fully. Though the government wanted to treat the small-scale units on a par with large units, this could not be done immediately as capacities in the sector had not been fully assessed. Small units who had received free foreign exchange, had an advantage as they had greater bargaining power. Ancillary industries were on a different footing. Few units seemed to be recognised as ancillaries to particular industries. A majority of them had not yet started specialisation. It was, therefore, difficult to treat them as priority industries. If a case was made out that the existing measures of import liberalisation did not meet the requirement of ancillary units the matter could be examined further. In the case of indigenous raw materials, the recommendation of the Lokanathan Committee in respect of the small-scale sector had been accepted. In the absence of distribution control over most of the items, producers had been persuaded to supply the requirement of small units at reasonable prices. The recent liberalisation measures, which enabled large units to increase production of basic and intermediate raw materials might further ease the situation. Mr Sanjivayya invited suggestions from the

federation for better implementation of the policy. The revised definition of a small unit ensured that sophisticated units could now expand without losing the assistance now available to them. It was, however necessary to see that the smaller among the small units and those situated in smaller towns also derived adequate benefit. The safeguards required were now being examined. During Fourth Plan the principal aim would be to consolidate the progress already achieved in the small-scale sector and to ensure further accelerated growth, in co-ordination with programmes for increased agricultural production and development of large industries. Efforts would be concentrated on encouraging small units in towns and rural areas. Various programmes of improvement and research and provision of credit facilities were intended to broaden the structure of the small sector so that it might be viable and self-reliant. Devaluation and import liberalisation were both an opportunity and a challenge to small industries. Demands for technical assistance through small industries service institutes had fast out turn capacity. There was urgent need to provide technical assistance in new industries like electronics, plastics and petro-chemical based industries. Even in some of the existing trades there was great need to intensify and further upgrade the services. The Small-Scale Industries Board had suggested that the CSIO should be strengthened to meet these new demands. This was now under consideration. Even so, this would not meet the requirement of all small industries. At best, it could provide the nucleus of a technical consultancy service. He urged small industries to evolve a sort of mutual assistance plan. The federation with the assistance of SISI, could set up a panel was expressed satisfaction at the steps taken by the CSIO to concentrate its campaign on the more backward areas. It had completed its efforts in the bigger towns. It was up to the commercial banks and other financing institutions now to take over in the bigger towns. He urged small industrialists to maintain proper records and accounts. It was not sufficient to be credit-worthy but the financial institutions should be convinced about their credit-worthiness. The Reserve Bank had prepared a model set of account books for small industrialists. He urged the federation to popularise these.

SMALL INDUSTRIES FINANCE

The Reserve Bank of India's proposal to utilise the services of Non-banking financial institutions in the country as intermediaries for financing small scale industries would be welcomed by the small-scale industrial sector which has been complaining of inadequate credit facilities. Apart from a casual mention of the proposal in the course of a discussion between the All-India Manufacturers' Organisation and the officials of the Reserve Bank of India, no details are available. Evidently, the RBI itself has not worked out any concrete scheme, and it can, therefore, be expected to take some time in view of the fact that the number of such institutions are much larger and more widespread than the commercial banks. Also the collection of the necessary data from them is not an easy proposition. The use of these institutions for financing small-scale industries necessarily means

that they should be brought within the purview of the Reserve Bank's monetary and credit policy and subjected to the same measure of discipline as the organised sector. This is as it should be, if the Bank's monetary and credit control is to become more effective.

That the Reserve Bank has already taken steps to bring about some discipline among these institutions is evident from its directive on the acceptance of deposits by non-financial companies. In fact, the RBI officials, reference to the utilisation of Non-banking financial companies for financing small-scale industries came up when the president of the AIMO complained that the restrictions on the acceptance of deposits would particularly hit the small-scale industries. The spokesman of the RBI went to the extent of saying that small-scale industries had ample credit limits with banks, a sizeable part of which remained unutilised. According to him, companies with total assets of less than Rs 10 lakhs had deposits aggregating Rs 5.9 crores as on March 31, 1965 as against this small-scale industries and on that day credit limits amounting Rs 135 crores, of which not even 75 per cent was utilised. This is a revelation which cannot be reconciled with the grievance of the small-scale industries that they are not getting adequate credit. In the course of a resolution passed recently, the Federation of Associations of Small Industries urged the Union Government to direct the State Bank of India to grant additional facilities to small industries by way of larger cash credit at lower margins and clean loans for a minimum period of twelve months. Speaking at a recent seminar on small-scale industries at Madras, the State Industries Minister also said that the finance available to small industries was paltry and inadequate and that unnecessary credit restrictions had done a great harm to small-scale industries.

If, according to the RBI spokesman, the existing credit limits with banks are not being fully utilised by small-scale industries, one may ask what purpose it would serve to seek the aid of non-banking financial institutions for financing small-scale industries. In spite of the apparent contradiction in the observations of the RBI spokesman, it is clear that the outlay of Rs 800 crores on village and small industries envisaged in the Fourth Plan—this includes Rs 400 crores expected from private sources—calls for a greater effort to tap all possible resources to finance this sector; and the non-banking financial institutions, by virtue as a useful channel for this purpose.

VILLAGE AND SMALL INDUSTRIES

THE DEVELOPMENT OF village and small industries, as in the past, will continue to be undertaken as an integral part of the industrial development of the country. The programmes for the development of various small industries, viz., handloom, powerloom, industrial estates, handicrafts, khadi and village industries and small scale industries during the Fourth Plan mainly relate to provision of direct financial assistance, development of institutional credit, development of intermediate technology, supply of scarce raw-materials, expansion of training programmes, decentralised manufacture of equipment and organisation of Co-operatives. The programme under the Rural Industries Projects is expected to be expanded

considerably in the light of the suggestions of the Study Team which is currently evaluating the programme.

The target of production of cloth in the decentralised sector which includes handloom, powerloom and khadi has been set at 4572 million metres by the end of the Fourth Plan, as against the estimated production of 3146 million metres in 1965-66. The production of raw silk is envisaged at 31.0 lakh kgs. by the end of 1970-71 as against 21.5 lakh kgs. in 1965-66. It is proposed to set up 250 new industrial estates as against 300 completed by 1965-66. A total provision of Rs 370 crores is being made in the public sector for these programmes during the Fourth Plan. Additional funds will be available from other programmes like Community Development and Rehabilitation of displaced persons. Investment in the private sector is estimated at about Rs 320 crores, excluding inventories.

APPENDIX 1

'PAPER GOLD' ADOPTED: SNAGS RESOLVED

[*Reference: P. 7*]

THE WORLD'S ten richest industrial nations appear to have moved a little nearer to a private agreement that the U.S. sponsored scheme for creating I.M.F. special drawing rights or 'paper gold' should be activated by the end of this year. But important differences remain over the size of the initial amounts to be created and their duration. This emerged after a two-day meeting of the Group of Ten deputies in Paris, a sequel to the negotiations held at the beginning of June. It is understood that the senior treasury officials present have agreed to meet again for further talks on July 23 and 24 and that a further meeting may be necessary sometime in August. However, the U.S. delegation, led by Mr Paul Volcker, the Under Secretary at the Treasury, was optimistic that fuller agreement would be reached inside the Group of Ten by the time of the ministerial meeting of the Fund in Washington next September. During the final session of the week-end's discussions, all the delegations except the French, who have not yet ratified the scheme, were reported to have formally mentioned for the first time their preferences for the size and duration of the S.D.Rs to be created. The Americans are pressing for the creation of a minimum of $ 4,500 million worth of S.D.Rs over a five year period. At the other end of the scale, the Dutch and the Belgians are apparently insisting on an annual creation of not much more than $ 2,000 million for two years only, while the West Germans and the Italians fall somewhere in the middle favouring about $ 3,000 million a year for three or four years. Britain is understood to have stayed rather in the background of the discussions. France obviously has not been able to take up any formal position, though the new Finance Minister, Mr Valery Giscard D'Estaing, who has expressed support for S.D.Rs in the past, is now expected to formulate a definite policy before September. Virtually all the Group of Ten members agree that the rapid expansion of world trade expected during the next five years will require the creation of new reserves at an annual rate of about $ 5,000 million, but where they differ is on the form which these new reserves should take. The Europeans, particularly Belgium and the Netherlands, favour a low initial injection of S.D.Rs since they fear that failure by the U.S. and Britain to get their balance of payments into equilibrium will result in an automatic increase in world liquidity which, added to really massive S.D.R. creation, could produce dangers of inflation. For this reason they tend to favour the creation of conditional rather than unconditional liquidity, which could be achieved by an increase in the Fund quotas when they come up for review later this year. Moreover, the EEC would like their quotas to be increased selectively to give the Community greater weight in the Fund relative to the Americans, who presently hold 23 per cent of the quotas.

The U.S. opposes this partly out of fear, that by such an operation, they might be called upon by the Europeans to redeem dollars for Gold. Moreover, they argue that they have pledged themselves to improve their balance of payments position, which together with British debt repayments to the IMF, will lead to a contraction in international liquidity. The Europeans, however, are keen to assess the likely trends of world liquidity at greater length and while they stress that there is no strictly technical link between S.D.Rs and quotas, the two questions are, as one delegate put it, 'connected in everybody's mind'.

It is expected that the EEC Finance Ministers will discuss the situation at greater length and attempt to agree on a common position when they meet in Brussels on July 17. At this meeting, much will depend on whether the Germans who now appear to hold a key role in the S.D.R. debate, decide to stick firmly to their mid-way position or whether they modify their proposals to conform more closely with those of the Belgians and the Dutch. Moreover, the views of Mr Giscard D'Estaing are expected to be heard with some interest since the French are not able to take up any formal position on S.D.Rs at present. Their most effective way of influencing the course of events will lie in the pressure which they can bring to bear on their Community partners within the context of the EEC's own deliberations. While any more accurate assessment of the prospects for early activation of S.D.Rs will probably have to wait until after the next Group of Ten meeting in July, there has been some speculation that the Americans and their partners may reach a compromise by agreeing on a fairly high initial injection with provision for a review procedure after the first and second years of activation. This would permit the adjustment upwards or downwards of the amounts of S.D.Rs created in subsequent years.

The International Monetary Fund has announced that its Special Drawing Rights scheme (which seeks to introduce paper gold to supplement the two world-trade currencies, the dollar and the pound) has been ratified by the requisite majority of its members. At its recent Paris meeting, the Group of Ten—the ten richest non-Communist nations—had agreed to the creation of $9.5 billion worth of S.D.R. over a three-year-period—$3.5 billion in the first year and $3 billion each in the subsequent two years. Such supplementing of 'world cash' has become necessary because the currency reserves have not grown fast enough to keep pace with the increase in the volume of world trade. Most of the new gold from the mines has been flowing into non-monetary uses. The U.S. dollar and the British pound, which, as reserve currencies, have been used in lieu of gold are themselves weak because of their payments deficits. In the process of correcting these deficits, the supply of these currencies has also become tighter. Hence the urgency for the creation of a new type of world money.

Under the existing system, an I.M.F. member is entitled to draw from the Fund the foreign currency it needs, in exchange for its own currency. But the drawer has to buy back its own currency after a stipulated time with gold, dollars or pounds. This is known as reconstitution. Under the proposed S.D.R. scheme, reconstitution is applicable to only 30 per cent of the liability. A member country's

special drawing right, which is a paper claim or book-entry credit with the I.M.F., clears the remaining 70 per cent. The amount of such book-entry credits or S.D.R. available to a member country will bear the same ratio to the total volume of S.D.R. authorised, as the member's quota in the I.M.F. does to the aggregate of I.M.F. quotas. Developed countries like the U.S. will thus have more S.D.R. because they have larger I.M.F. quotas. The U.S. share will be 25 per cent or $700 million against India's 3.5 per cent or $122 million. Developing countries like India will therefore stand to get only marginal benefits. And they cannot raise their quotas, because they will be unable to find the necessary amount of gold for subscribing to the increase. They have therefore been urging that their allocations of S.D.R. should at least be twice their entitlement under the quota system and they are hoping that I.M.F., at its next annual meeting in September, will evolve a formula that will meet their requirements, if not fully, at least partially. They already have the support of the United States.

APPENDIX 2

SHARPEST ECONOMIC GROWTH

[*Reference: P. 262*]

Japan claimed it had outstripped West Germany in the gross national product to take the second place in the non-Communist world. The Economic Planning Agency said the nation's G.N.P. in 1968 totalled 48,877,100 million yen (equivalent to about $135,770 million) compared to West Germany's $131,800 million in the same period. It said Japan's G.N.P. in 1968 represented a national increase of 17.6 per cent, the world's sharpest economic growth rate, overshadowing West Germany's 8.9 per cent. The G.N.P. of the United States in 1968 amounted to about $860,700 million.

APPENDIX 3

FINANCE FLOW TO GROWING NATIONS RISES: U.N. REPORTS

[*Reference: P. 91*]

A new UN report, 'External Development Finance: Present and Future', indicates that the net flow of financial resources to developing nations from economically advanced countries and multilateral agencies rose to a new high point of almost $11 billion in 1967.

This represented 0.70 per cent of the gross national product of major free market economies.

The report also shows that to fulfil the target set by the General Assembly—to provide developing countries with a financial transfer of one per cent of GNP of each industrialised country by 1972—net flows from the developed market economies would have to amount to a projected $19 billion in 1972 and nearly $22 billion in 1975, both measured at 1967 prices.

Prepared by the secretariat of the UN Conference on Trade and Development, the 36-page report is part of the UN programme of studies in the field of external financing of development.

Some of the major observations contained in the UNCTAD study include that the total annual net flows of financial resources from developed market economies to recipient countries in Africa, Asia and Latin America and to multilateral agencies during 1964-67 averaged $9.7 billion, ranging from $8.5 billion to $10.6 billion.

Bilateral net flow of private capital and of export credits amounted to $3.7 billion in 1967. Together with private transactions with multilateral agencies, this represented more than one-third of the total net flow of resources from developed market economies.

According to available estimates, the net disbursements of financial resources by the socialist countries of eastern Europe and Asia amounted to about $350 million per year on the average during 1964-67.

Multilateral agencies 'have greatly expanded their operations during the 1960's', increasing their share of the total flow of financial resources to the developing countries to about 10 per cent during 1964-67.

In addition to the analyses of recent flows and future targets for external development financing—amplified by a number of statistical tables—the UNCTAD study reproduces letters from Mr Robert S. McNamara, President of the World Bank, and Mr Felipre Herrera, President of the International Development Bank, to Mr Raul Prebisch, Secretary-General of UNCTAD. The letters deal with problems of access to capital markets by the World Bank and the I.D.B.

The UNCTAD report finds that greatly increased access to private capital markets will be required by multilateral lending institutions to sustain the increases in their activities which are foreseen at present.

APPENDIX 4

U.S. PANEL FOR RESTORING AID TO 1965 LEVEL

[*Reference: P. 348*]

The foreign aid concept has received a much-needed boost from an advisory panel appointed by President Johnson. The Presidential Advisory group has said it is imperative that the U.S. restore aid levels to those obtaining in 1965, when the U.S. contributed one per cent of its national income to overseas development.

In a warning directed largely at the in-coming Nixon Administration, the group has said that if the U.S. ignores the needs of the poorer countries, it will face the same perils it does by ignoring the poor in its own cities—violence and unrest as well as alienation from the U.S.

TRIPLING OF DONATIONS SUGGESTED

The group has recommended the tripling of U.S. contributions to such multilateral agencies as the I.D.A., the inter-American Development Bank and the Asian Development Bank (in 1967 the total U.S. donations to these agencies amounted to only a little over $300 million). The U.S. development loans and Government to Government grants alone should reach $2.5 billion annually in the next four years, according to the group (last year the total economic aid appropriated by Congress amounted to only $1.38 billion).

The Presidential Advisory group has also recommended the replacement of the Agency for International Development by a Development Co-operation Fund which would make long-term loans on liberal terms, the creation of an Overseas Investment Corporation to expand the present investment promotion and guarantee functions of the A.I.D. and the transfer of military aid programme to the Defence Department. The committee has endorsed some of the A.I.D. guidelines followed by the Johnson Administration—self-help and accent on aid being used for promoting agriculture, education and family planning programmes in recipient countries.

How far these recommendations made during the final days of the Johnson Presidency will weigh with the Nixon Government is uncertain because the Republican approach to aid has been generally conservative to say the least. Mr Nixon himself has not said anything specific on the subject during the election campaign. Though he is known at what levels he would like to maintain it. He has been of the view that other countries besides the U.S. should shoulder a larger burden, that aid should go to fewer countries and that countries friendly to the U.S. should have preference. He has also favoured a much larger role for private capital in the dispensation of aid.

Some of these views of Mr Nixon have been reflected recently in the recommendations made by the panel of Republican Congressmen who have placed greater emphasis on U.S. technical assistance and a corresponding de-emphasis on large capital outlays through U.S. Development Loans. Whereas in the past the U.S. has been providing half of all the loans channelled through the World Bank consortia to such countries as India and Pakistan, they favour the U.S. putting up only one-third of the total so provided, with the other Consortia members taking up the balance.

Whether Mr Nixon will accept these recommendations in toto remains to be seen. According to reports current here he intends to set up a special panel to study the aid question after he takes over and make specific recommendations to him. His own request to Congress for aid in future years would be based on these findings. The net result of all these appraisals and reappraisals would be delay in Congress acting on aid appropriations for the coming year.

EDUCATION SUFFERS IN NEW FOURTH PLAN

Education has become a casualty in the revised Fourth Plans of different States compared to their original Fourth Plans, according to a survey conducted by the working group of the Education Ministry.

All States except Andhra and Uttar Pradesh have reduced the percentage of their allotment to the total plan outlay.

While the allocations of Andhra and Uttar Pradesh in the new plans have increased both in quantum and percentage, in the States of Assam, Gujarat, Haryana, Jammu and Kashmir, Kerala and Nagaland, total outlays have increased but their percentage to total has declined.

In all other States, the total has declined.

Consequently, the allocation for education now forms only eight per cent of the total State Plan outlay as against 9.4 per cent in the old Fourth Plan.

The States where education will suffer most as a result of this decline are Bihar, Madhya Pradesh, Mysore, Orissa and Rajasthan and the gap between them and the other advanced States will be widened.

ADULT LITERACY

An analysis of the Plans of the State Governments showed that they were not prepared to accord a high priority to programmes of adult literacy, 'most unfortunate' was the lack of seriousness about teacher education, the allotments for which came to only Rs 19.39 crores as against Rs 102.35 crores proposed by the Central Planning Group.

Similarly, the proposals of State Governments about elementary education, on the whole, did not accord adequate priority to programmes of primary education.

The figures of enrolment in West Bengal are falling even below the national average.

Bihar will not be able to introduce universal education for the age group of 6-11 for another 15-20 years and it may require as many as 30-50 years to provide the same for the age group of 11-14.

Similar is the case of Rajasthan and Madhya Pradesh and to some extent Orissa.

DOUBLE SHIFT

In view of the paucity of finances and the inability of some States to appoint additional teachers, the working group suggested the introduction of double shift system in class I and II to increase the pupil-teacher ratio without adversely affecting standards.

At lower primary stage, education was free in all areas of the country except the urban areas of West Bengal.

Even during the Fourth Plan period, West Bengal had no proposals to make it free in the urban areas.

Wastage and stagnation at the primary stage continued to cause anxiety in all States.

All States have recognised the need to avoid this wastage and have provided funds for the same.

IRRIGATION AND POWER: Rs 150 CRORES LOSS TO STATES ANNUALLY

The States are at present incurring a net loss of about Rs 75 crores per year on commercial irrigation works, according to Planning Commission estimates.

During recent discussions with the States on their Fourth Plans, the Commission therefore, emphasised the need for rationalising the irrigation rates in line with the recommendations of the Nijalingappa Committee.

If these recommendations are implemented from the next financial year, the additional yield over the Fourth Plan period would be about Rs 400 crores the Commission has calculated.

Similarly, the Commission has emphasised the need for implementing the Venkatraman Committee proposal for a 11 per cent return of capital employed in electricity undertakings.

Although the States have accepted the proposal in principle, the pace at which adjustments in tariff rates are being made would not secure the targeted rate of return even by the end of the Fourth Plan.

It is estimated that if the present average rate of about 10 paise per kilowat-hour is raised by just one paisa, the additional yield in the Fourth Plan would be about Rs 350 crores.

In justifying the implementation of these two measures by the States, the Commission has pointed out that large increases in income have already been generated in the agricultural sector and are likely to amount further with the extension of the new agricultural strategy.

These increases would be a direct consequence of large investments made by the public agencies in agriculture and irrigation projects. Therefore, if the beneficiaries do not pay sufficiently for these investments, it would only mean that they are being subsidized at the cost of the general tax-payer.

U.S. President Richard Nixon asked Congress recently for 625 million dollars for economic assistance to eight nations in South and West Asia with India and Pakistan earmarked to receive the greatest share. A total of 399.5 million dollars was sought for India, a sharp boost over the 205.9 million appropriated for the current fiscal year. The request for Pakistan amounted to 148.7 million dollars, another sharp increase over the 79.35 million dollars in economic aid appropriated for the current year. Mr Nixon's message of the Congress said that a few years ago, mass starvation within a decade seemed clearly possible in many poor nations, but today 'they stand at least on the threshold of a dramatic breakthrough in food production.'

'The combination of the new miracle seeds for wheat and rice, aid-financed fertiliser, improved cultivation practices and constructive agriculture policies show what is possible'. 'They also demonstrate the potential for success when foreign aid, foreign private investment and domestic resources in developing countries join together in a concerted attack on poverty'. U.S. officials said that the figures being sought for India and Pakistan were within the range of the usual U.S. share of assistance to the two countries in conjunction with the World Bank Consortium. In separate Paris meetings the industrial nations supporting India's economic growth received recommendations from the World Bank that one billion dollars be contributed and the figure recommended for Pakistan was 500 million dollars. During the current year U.S. contributions fell below the customary 40 per cent of the aid figure. U.S. officials say it is entirely possible for India and Pakistan to increase their agriculture production five per cent and they consider the prospects for a respectable growth rate is feasible for both countries. This would keep them well ahead of their current population increase of 2.7 per cent in Pakistan and 2.8 per cent in India. There was no provision for military assistance in India and Pakistan although Secretary of State William Rogers said the question was under review.

APPENDIX 5

OFFICIAL CAPITAL IMPORTS

[*Reference: P. 402*]

So far as India is concerned, the table on p. 449 shows the source and size of aid received from different areas under different terms. The figures show that upto the end of March 1968, Rs 6,713.1 crores worth of foreign aid was utilised by India, but there still remained Rs 1,985.7 crores of authorised but unutilised aid (including loans and grants) by the end of March 1968. These figures further reveal that although foreign aid has become rather tight nowadays, India's capacity for absorbing foreign assistance appears to have reached the saturation point and further doses might involve less economy and heavier incidence of foreign debt burden. Also, the table shows without reference to accepted priorities. A part of the unutilised accommodation might be due to time lags consequent on red-tape, availability of shipping space, etc.

INDIA'S FOREIGN DEBT BURDEN: LATEST FIGURES

The outstanding foreign loans as on November 1, 1968, totalled Rs 5,801.8 crores. Of this amount, Rs 3,790.62 crores have to be repaid in foreign currency, Rs 480.04 crores through export of goods and 1,530.84 in rupees, mostly P.L. 480 loans. The repayments in 1968-69 and 1969-70—principal and interest—will total Rs 319.33 crores and Rs 359.64 crores respectively. The repayment in foreign currency will be Rs 187.80 crores in 1968-69 and Rs 223.27 crores in 1969-70. The balance of repayments during the two years will be by way of exports and in rupees. The total rupee funds which have accrued to the U.S. Government till December 31, 1968, from P.L. 480 transactions amounted to Rs 2,083 crores.

PRIVATE CAPITAL FLOWS

A Reserve Bank survey of foreign collaboration covered 827 companies in the Private Sector, of which 224 were subsidiaries, 367 minority participation Companies and 236 pure Technical collaboration Companies (1963-64). The share capital of these 827 companies was Rs 162.6 crores of which Rs 127.7 crores was held by foreigners, working at 78.5 per cent. Of these, 47 had more than Rs 10 crores each of total capital. The ratio of gross profits to total capital employed during 1960-61 to 1963-64 averaged around 15.6 per cent for subsidiaries, 8.4 per cent for the minority participation group and 11.4 per cent for the pure technical group. During 1963-68, 68 joint ventures abroad, undertaken by Indian Entrepreneurs, were approved by the Government of India, but most of

them were small in size. They were subjected to several pre-conditions with a view to maintain the business reputation of India abroad.

The outflow by way of remittances of profits and dividends abroad by foreign-owned companies or Indian subsidiaries of foreign companies exceeded the net equity inflow into this country. In 1961-62 the total net equity inflow was Rs 27.7 crores, in 1962-63 Rs 25.9 crores, in 1963-64 Rs 18.2 crores and in 1964-65 Rs 20.2 crores. The outflow on account of profits and dividends and the remittances on account of royalties and technical know-how and services were as follows: 1961-62 Rs 35.01 crores and Rs 2.4 crores respectively; 1962-63 Rs 40.87 crores and Rs 3.6 crores; 1963-64 Rs 30.82 crores and Rs 4.6 crores and 1964-65 Rs 39.54 crores and Rs 4.4 crores.

The Indian subsidiaries were mostly of British companies and many of them were started before Independence. Over the last several years, Government had been following a deliberate policy of reducing the level of foreign capital in these companies, in respect of both industrial and non-industrial subsidiaries, and these efforts have been attended with a measure of success. Foreign capital in one Swiss and two American companies and one company with origin in Bahamas Islands has been reduced. Two hundred and forty-three companies had subsidiaries and branches in India and many of them did have links with bigger international business combines. The companies did not like information to be divulged because it could be useful to their competitors. Further, if information was revealed, it was likely the companies might be reluctant to furnish information in full in future and the Reserve Bank might be hampered in conducting surveys of foreign investments.

The Government would advise the Reserve Bank to make a study of the rule of such subsidiaries in the economic growth of this country. There were certain subsidiaries whose remittances were small but which had saved imports involving considerable sums. It was not that all such companies were operating to the disadvantage of the country. Each case of foreign equity participation or collaboration was examined from the point of view whether it fitted into the plan priorities, whether it made available technical know-how which was not possessed already and whether foreign exchange could not be raised otherwise. These considerations were borne in mind before allowing such ventures. So far as the old companies functioning prior to Independence were concerned, steps had been taken to reduce the level of foreign participation (Table 112).

TABLE 112

FOREIGN AID: SOURCE AND SIZE—UTILISATION BY INDIA UP TO MARCH 1968

(Crores of rupees)

	Utilisation		*Utilisation*		*Aid undisbursed as at the end of March 1968*
	Up to the end of Second Plan	*Third Plan*	*1966-67**	*1967-68*	
(1)	(2)	(3)	(4)	(5)	(6)
I. *Loans*					
A. Repayable in Foreign Currencies					
1. From International Institutions:					
(*i*) I.B.R.D.	256.6	123.4	24.6 (2.3)	22.8	108.6
(*ii*) I.D.A.	—	200.6	128.4 (10.9)	162.5	53.8
2. From Foreign Countries:					
(*i*) Austria	—	4.7	3.6 (0.3)	3.2	6.3
(*ii*) Belgium	—	4.9	— (—)	1.9	11.2
(*iii*) Canada	15.7	11.5	11.2 (1.2)	17.9	94.3
(*iv*) Denmark	—	—	2.1 (0.3)	2.9	3.4
(*v*) France	—	21.0	4.3 (—)	28.6	67.6
(*vi*) Italy	—	11.6	0.1 (0.1)	1.5	133.0
(*vii*) Germany (West)	119.9	219.7	61.2 (4.1)	62.2	120.5
(*viii*) Japan	16.0	88.3	26.7 (6.0)	40.2	91.3
(*ix*) Netherlands	—	9.5	6.2 (0.6)	8.4	22.5
(*x*) Sweden	—	—	1.5 (—)	1.3	4.2
(*xi*) Switzerland	—	6.0	7.0 (1.1)	3.1	15.8
(*xii*) United Kingdom	121.9	170.4	88.2 (4.0)	80.6	70.6
(*xiii*) United States of America					
(*a*) Wheat Loan of 1951	90.3	—	—	—	—
(*b*) Eximbank loans for machinery & equipment	30.9	130.3	31.2 (4.9)	20.4	6.0
(*c*) U.S. Banks loan to Air India	5.9	9.8	11.2 (1.5)		
(*d*) Boeing Company's loans to Air India	—	1.1	2.1 (—)	1.2	5.9
(*e*) A.I.D. Loans	—	498.1	165.5 (20.8)	244.0	232.3
(*f*) P.L. 480 Convertible currency credits	—	—	—	30.8	36.8
(*xiv*) Bulgaria	—	—	—	—	11.3
(*xv*) Czechoslovakia	—	12.6	12.6 (0.8)	7.4	59.0
(*xvi*) Hungary	—	—	—	—	25.0
(*xvii*) Poland	—	11.4	0.9 (0.1)	1.8	44.4
(*xviii*) U.S.S.R.	74.8	207.2	33.6 (4.4)	46.4	494.3
(*xix*) Yugoslavia	—	9.7	4.4 (2.1)	3.4	69.5
Total A	732.0	1751.8	626.6 (65.5)	792.5	1787.6

(*Continued on page 450*)

(*Continued from page 449*) (Crores of rupees)

	Utilisation		*Utilisation*		*Aid undisbursed as at the end of March 1968*
	Up to the end of Second Plan	*Third Plan*	*1966-67**	*1967-68*	
(1)	(2)	(3)	(4)	(5)	(6)
B. Repayable in Rupees					
1. Denmark	—	0.6	0.5 (0.1)	—	0.1
2. U.S.A.	76.9	147.4	8.7 (1.6)	3.9	38.8
(*a*) D.L.F./A.I.D. Loans					
(*b*) Asian Economic Development Fund Credit for Orissa Iron Ore Project	—	8.4	0.3 (—)	0.2	—
(*c*) T.C.A. Loans	42.2	—	—	—	—
Total B	119.1	156.4	9.5 (1.7)	4.1	38.9
Total I (A+B)	851.1	1908.2	636.1 (67.2)	796.6	1826.5
II. *Grants*					
(*i*) Australia	12.7	7.0	16.0 (—)	7.5	2.4
(*ii*) Canada	80.0	54.3	66.5 (3.1)	43.7	17.1
(*iii*) Czechoslovakia	—	0.4	—	—	—
(*iv*) Germany (West)	0.7	1.9	1.2 (—)	—	0.2
(*v*) Japan	0.3	0.2	—	—	0.2
(*vi*) New Zealand	3.2	0.4	0.3 (—)	—	0.7
(*vii*) Norway	2.5	2.6	0.6 (—)	—	—
(*viii*) Sweden	—	3.5	2.2 (—)	—	0.3
(*ix*) United Kingdom	0.5	0.8	0.1 (—)	—	0.8
(*x*) U.S.A.‡	129.8	31.1	4.4 (0.6)	2.3	8.7
(*xi*) U.S.S.R.	1.1	3.9	1.4 (—)	—	1.5
Total II	230.8	106.1	92.7 (3.7)	53.5	31.7
III. *Other Assistance*					
(*i*) P.L. 480†	515.5	852.9	324.0 (62.1)	310.9	127.5 §
(*ii*) P.L. 665†	31.9	—	—	—	—
(*iii*) Third country currency assistance from the U.S.A.	2.5	0.3	—	—	—
Total III	549.9	853.2	324.0 (62.1)	310.9	127.5
Grand Total (I-II-III)	1631.8	2867.5	1052.8 (133.0)	1161.0	1985.7

Note: * Figures for April 1 to June 5, 1966 are expressed in rupees at the pre-devaluation rate of exchange and for the subsequent period at the post-devaluation rate of exchange. Figures in brackets represent amount utilised during the pre-devaluation period.

‡ Exclude grants under P.L. 480 titles II and III as they are not a part the of assistance for plan projects and programmes.

† £Assistance under P.L. 480 and P.L. 665 is shown on a gross basis by way of the rupee values of imports under the programmes. Convertible currency credits under P.L. 480 title I during 1967-68 are shown under 'Loans Repayable in Foreign Currencies' and not included here.

§ The undisbursed balance as at the end of March 1966 and March 1968 has been reduced by Rs 86.7 crores and Rs 7.1 crores to Rs 107.6 crores and Rs 127.5 crores, respectively on account of lapsed agreements.

APPENDIX 6

THE FORTH PLAN—1969-74

(*Reference: P. 240*)

A total outlay of Rs 24,398 crores is envisaged for the Fourth Plan. Of this, the public sector outlay will amount to Rs 14,398 crores while the investment in the private sector is anticipated to be Rs 10,000 crores. In the public sector Rs 12,252 crores have been provided for investment and Rs 2,146 crores for current outlay. The total investment for the creation of productive assets aggregates to Rs 22,252 crores. Table 113 indicates the distribution of the public and private

TABLE 113

FOURTH PLAN-OUTLAY AND INVESTMENT: PUBLIC AND PRIVATE SECTORS

Head of development	*Public sector*				*Private sector*		*Public and Private sector*		
	Total outlay	*Current outlay*	*Investment*	*Percentage distribution of total outlay*	*Investment*	*Percentage distribution*	*Total Investment (4+6)*	*Total outlay (2+6)*	*Percentage distribution*
Agriculture and allied sectors.	2,217	550	1,667	15.4	1,800	18.0	3,467	4,017	16.5
Irrigation and flood control	964	14	950	6.7	...	...	950	964	3.9
Power	2,085	...	2,085	14.4	50	0.5	2,135	2,135	8.7
Village and small industries	295	111	184	2.1	500	5.0	684	795	3.3
Industry and minerals	3,090	35	3,055	21.5	2,150	21.5	5,205	5,240	21.5
Transport and communications	3,173	40	3,133	22.0	1,010	10.1	4,143	4,183	17.2
Education	802	539	263	5.6	50	0.5	313	852	3.5
Scientific research	134	41	93	0.9	...	...	93	134	0.5
Health	437	305	132	3.0	...	...	132	437	1.8
Family planning	300	250	50	2.1	...	...	50	300	1.2
Water supply and sanitation	339	2	337	2.4	...	...	337	339	1.4
Housing and urban development	171	...	171	1.2	2,680	26.8	2,851	2,851	11.7
Welfare of backward classes	134	134	...	0.9	...	...	...	134	0.5
Social Welfare	37	37	...	0.3	...	...	...	37	0.2
Labour welfare and craftsmen training	37	18	19	0.3	...	...	19	37	0.2
Other programmes	183	70	113	1.2	...	...	113	183	0.7
Inventories	...	...	...	...	1,760	17.6	1,760	1,760	7.2
Total	14,398	2,146	12,252	100.0	10,000*	100.0	22,252	23,398	100.0

* Exclusive of transfers of public funds.

sector outlays by major heads of development. The estimates of development outlays do not include most of the expenditures by local bodies out of their own resources on development schemes. Expenditure on the maintenance of developmental services and institutions established during the earlier Plans as well as the Annual Plan years (1966-69) will be provided for in the normal budgets and does not form part of Plan outlay. (Table 114)

TABLE 114

PUBLIC SECTOR OUTLAYS IN THE FOURTH PLAN AND EXPENDITURE IN THE THIRD PLAN AND ANNUAL PLANS: 1966-69

(Rs crores)

Head of development	*Third plan*	*1966-69 (estimated)*	*Fourth plan*
(1)	(2)	(3)	(4)
Agriculture and allied sectors	1080.0	1166.6	2217.5
Irrigation and flood control	663.7	457.1	963.8
Power	1252.3	1182.2	2084.5
Village and small industries	240.8	144.1	294.7
Industry and minerals	1726.3	1575.0	3089.9
Transport and communications	2111.7	1239.1	3173.1
Education	588.7	322.4	801.6
Scientific research	71.4	51.1	134.0
Health	225.9	140.1	437.5
Family planning	24.9	75.2	300.0
Water supply and sanitation	105.7	100.6	338.9
Housing and urban and regional development	127.5	63.4	170.7
Welfare of backward classes	99.1	68.5	134.3
Social welfare	19.4	12.1	37.2
Labour welfare and craftsmen training	55.8	35.5	37.1
Other programmes	175.0	123.5	182.8
Total	8577.2	6756.5*	14397.6

* The actual expenditure is likely to be lower.

PUBLIC SECTOR

The total public sector outlay of Rs 14,398 crores in the Fourth Plan includes Rs 7,207 crores as outlay on Central schemes, Rs 727 crores for Centrally sponsored schemes, Rs 6,066 crores in the States and Rs 398 crores in the Union Territories. The distribution of outlay between the Centre, Centrally sponsored schemes, States and Union Territories under major heads of development is shown in Table 115.

TABLE 115

DISTRIBUTION OF PUBLIC SECTOR OUTLAYS: CENTRE, CENTRALLY SPONSORED, STATES AND UNION TERRITORIES

(Rs crores)

Head of development sectors	*Centre*	*Centrally sponsored*	*Union territories*	*States*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)
Agriculture and allied sectors	694.3	100.0	69.8	1353.4	2217.5
Irrigation and flood control	23.5	—	11.8	928.5	963.8
Power	252.0	14.0	74.2	1744.3	2084.5
Village and small industries	145.0	5.1	10.2	134.4	294.7
Industry and minerals	2910.0	—	3.5	176.4	3089.9
Transport and communications	2610.0	40.0	85.7	437.4	3173.1
Education	231.0	28.0	50.3	492.3	801.6
Scientific research	134.0	—	—	—	134.0
Health	53.5	176.5	19.3	188.2	437.5
Family Planning	—	300.0	—	—	300.0
Water supply and sanitation	0.3	2.0	33.3	303.3	338.9
Housing and urban and regional development	34.0	—	20.6	116.1	170.7
Welfare of backward classes	0.5	59.5	4.2	70.1	134.3
Social welfare	23.3	2.0	1.8	10.1	37.2
Labour welfare and craftsmen training	9.2	—	2.8	25.1	37.1
Other programmes	86.0*	—	10.4	86.4†	182.8
Total	7206.6	727.1	397.9	6066.0	14397.6

* Break-up is as follows: rehabilitation (Rs 66.0 crores), statistics (Rs 4.4 crores), information and publicity (Rs 5.0 crores), expansion of printing capacity (Rs 10.0 crores), and research programmes committee (Rs 0.6 crores).

† Inclusive of outlays for special and backward areas, information and publicity, State capital projects, evaluation, etc.

The outlay under Agriculture does not fully reflect the anticipated step up inasmuch as it does not take into account the substantial investment to be made in this sector by financial institutions, namely, Agricultural Refinance Corporation, Agro-industries Corporations and Rural Electrification Corporation and cooperative institutions and land development banks and central cooperative banks. The investment in agriculture to be financed by these institutions from resources other than Plan outlay would amount to Rs 1,015 crores. The relevant figures are given in Table 116.

TABLE 116

INVESTMENT IN AGRICULTURE FROM DIFFERENT INSTITUTIONS

Institution	*Investment 1956-67*	*Loans 1967-68*	*Advanced 1968-69*	*Total investment loans to be financed*	*1969-74 plan outlay*	*Other resources to be raised*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Agricultural refinance corporation	2.1	5.7	10.0	200.0	140.0	60.0
Agro-industries corporation	—	—	—	250.0	50.0	200.0
Rural electrification corporation	—	—	—	150.0	45.0	105.0
Land development banks	60.0	78.0	100.0	700.0	200.0	500.0
Central cooperative banks	15.0	15.0	15.0	150.0	—	150.0

STATE PLANS

The Five Year Plans of States comprise a very large part of the National Plan as also of the public sector Plan. The outlays in different sectors of development in the State Plans during the previous Plans and those projected for the Fourth Plan are indicated in Table 117. The principles of allocation and the pattern of Central assistance to the States have also undergone a change. Many States had expressed a view that the Central assistance for State Plans should be distributed in accordance with certain objective criteria. The question was, therefore, placed before the Committee of Chief Ministers of the National Development Council. It was decided that after providing for the requirements of the States of Assam, Nagaland and Jammu and Kashmir, the Central assistance to the remaining States for the Fourth Plan be distributed to the extent of 60 per cent on the basis of their population, 10 per cent on their per capita income if below the national average, and 10 per cent on the basis of tax effort in relation to per capita income, and that another 10 per cent be allotted in proportion to the commitments in respect of major continuing irrigation and power projects. The remaining 10 per cent, it was decided, should be distributed among the States so as to assist them in tackling certain special problems, like those relating to metropolitan areas, floods, chronically drought affected areas and tribal areas. Hitherto,

TABLE 117

STATE PLAN OUTLAYS BY MAJOR HEADS OF DEVELOPMENT

(Rs crores)

Head of development	*Third plan*	*Annual plans 1966-69*	*Fourth plan*
(1)	(2)	(3)	(4)
Agriculture and allied sectors	972	779	1,354
Irrigation and flood control	655	448	929
Power	1,139	970	1,744
Industry and minerals	203	146	311
Transport and communications	294	210	437
Social services	844	456	1,205
Other programmes	58	43	86
Total	4,165	3,052*	6,066

* Actuals for 1966-67 and 1967-68 and anticipated for 1968-69.

Plan schemes under different heads of development had their own patterns of assistance and the States could draw their grants or loans accordingly. Outlays under certain heads of development as also some of the specified schemes were earmarked and could not be diverted to other heads of schemes. In future there will be no schematic patterns. Assistance will be given to the States through block grants and loans. In order to ensure that the overall priorities of the Plan are adhered to, outlays under certain heads or sub-heads of development and specified schemes will, however, be earmarked and will not be diverted to other heads or schemes. The decision that 60 per cent of the assistance should be distributed on the basis of population and that the States in which per capita incomes were below the national average should get another 10 per cent of the total assistance is a step towards the reduction of regional imbalances.

CENTRAL SCHEMES

Ever since the First Plan, a variety of programmes had been launched through schemes in which uniform patterns of staffing and administrative organisation were laid down by the Centre and which usually carried with them substantial

Central assistance during the Plan period. These were called Centrally-sponsored schemes. The responsibility for financing the committed expenditure for these at the end of the Plan fell on the States. Many of these schemes did not benefit all the States equally. Some of them had also given rise to anomalies as in the matter of pay scales and staffing patterns. The States felt that most of the programmes envisaged in these schemes could be more appropriately carried out by them through their own Plans. The Administrative Reforms Commission had also expressed a similar view in their report on the Machinery for Planning and suggested restriction of the number of Centrally sponsored schemes to the barest minimum and simplification of their operation. It has been decided that in future only those Centrally sponsored schemes will be taken up which fulfil the following criteria:

(*a*) that they relate to demonstrations, pilot projects, surveys and research;
(*b*) that they have a regional or inter-State character;
(*c*) that they require lump sum provisions to be made until they could be broken down territorially; and
(*d*) that they have an overall significance from the all-India angle.

The position was reviewed in the light of the above considerations and a greatly reduced list of Centrally sponsored schemes was approved by the Committee of the National Development Council. These schemes would hereafter be wholly financed by the Central Government.

TARGETS AND ESTIMATES

The targets aimed at and results anticipated in selected fields are indicated in Table 118. On the basis of the programme of investment proposed for the Fourth Plan and the level of outputs expected to be reached in different sectors by 1973-74, it is estimated that the overall rate of growth during the Fourth Plan will be about five and a half per cent a year. Detailed sectoral estimates are presented in Table 118. According to the estimates of the Registrar General, population is expected to grow at the rate of 2.5 per cent per year during the five-year period. The increase in per capita income over the Plan period will be about 3 per cent per year. In order to realise the rate of growth postulated, it will be necessary to step up the rate of domestic savings from the level of 8 per cent in 1967-68 to 12.6 per cent and that of investment from 11.5 per cent to 13.8 per cent by the end of the Plan. The increase in foodgrains output visualised in the Plan will enable the country to dispense with concessional food imports by 1970-71. Efforts will be made to limit the growth of non-food imports to 5 per cent per year while securing an annual increase of 7 per cent in exports. As a result, the requirements of foreign aid, net of debt repayment and interest payments, in the terminal year of the Plan will be brought down to half its present level. (Table 119)

TABLE 118

SELECTED TARGETS AND ESTIMATES

Item	Unit	1960-61 actuals	1965-66 actuals	1968-69 estimated	1973-74 targets estimates
(1)	(2)	(3)	(4)	(5)	(6)
Agriculture and allied sectors:					
Food grains production	mill. tonnes	82	72	98*	129
Sugar-cane (in terms of gur)	mill. tonnes	11.2	12.1	12.0*	15
Oilseeds	mill. tonnes	7	6.3	8.5*	10.5
Cotton	mill. bales	5.3	4.8	6.0	8
Jute	mill. bales	4.1	4.5	6.2*	7.4
Tea	mill. tonnes	321	365	418	450
Tobacco	thou. tonnes	307	298	380	480
High yielding varieties (area covered)	mill. hectares	—	—	8.5	24.1
Consumption of fertilisers:					
Nitrogenous (N)	thou. tonnes	210	550	1,400	3,700
Phosphatic ($P_2\ O_3$)	thou. tonnes	70	130	400	1,800
Potassic (K_2O_3)	thou. tonnes	26	80	180	1,100
Plant protection (area covered)	mill. hectares	6.5	16.6	54	80
Short and medium term loans advanced by primary co-operative credit societies	Rs crores	202	342	450	750
Membership of agricultural co-operative credit societies	mill. nos.	17	26	30	42
Area irrigated (gross):					
Major and medium	mill. hectares	13.1	15.2	17	21.2
Minor	mill. hectares	14.8	17.0	19	22.2
Agricultural pump-sets energised	thou. nos.	191.8	513.4	1,069	1,240
Industry and minerals:					
Steel ingots	mill. tonnes	3.5	6.5	6.5	10.8
Alloy and special steel	thou. tonnes	—	40	43	270
Aluminium	thou. tonnes	18.2	62.1	120	220
Machine tools	Rs crores	7	29	25	65
Sulphuric acid	thou. tonnes	368	662	1,020	3,500
Caustic soda	thou. tonnes	101	218	314	500
Soda ash	thou. tonnes	152	331	390	550
Refining capacity in terms of crude throughout	mill. tonnes	6.09†	9.75†	16.13†	26
Petroleum crude	mill. tonnes	0.4	3	5.8	9.7
Paper and paper board	thou. tonnes	350	560	640	960
Plastics	thou. tonnes	9.5	31.3	53	210
Fertilisers production:					
Nitrogenous	thou. tonnes	101	232	550	3,000
Phosphatic	thou. tonnes	53	123	220	1,500
Cement	mill. tonnes	8	10.8	12.5	18
Cloth:					
Mill-made	mill. metres	4,649	4,401	4,400	5,100
Man-made fibre fabrics	mill. metres	546†	870†	975	1,500
Handloom, powerloom and Khadi	mill. metres	2,067	3,141	3,400	4,250

* Base level. † Relates to calendar year. (*Continued on page 458*)

(*Continued from page 457*)

Item	*Unit*	*1960-61 actuals*	*1965-66 actuals*	*1968-69 estimated*	*1973-74 targets estimates*
(1)	(2)	(3)	(4)	(5)	(6)
Minerals:					
Iron-ore	mill. tonnes	11	24.5	26	53.4
Coal, excluding lignite	mill. tonnes	55.7	67.7	69.5	93.5
Power:					
Installed capacity	mill. kw.	5.6	10.2	14.5	22
Transport:					
Railway freight carried	mill. tonnes	156	203	203	265
Surfaced roads	thou. kms.	236	287	317	367
Commercial vehicles on roads	tou. nos.	225	333	380	585
Shipping tonnage	mill. GRT	0.9	1.5	2.1	3.5
Education:					
General education, students in schools	mill. nos.	44.7	64.8	75.2	97.2
Technical education, admission capacity, degree	thou. nos.	13.8	24.7	25	25
diploma	thou. nos.	25.8	48	48.6	48.6
Health and family planning:					
Hospital beds	thou. nos.	185.6	240.1	255.7	281.6
Doctors practising	thou. nos.	70	86	102.5	137.9
Family planning centres:					
Rural	numbers	1,100	3,676	4,840	5,225
Urban	numbers	549	1,381	1,856	1,856

TABLE 119

ESTIMATES OF NET DOMESTIC PRODUCT: 1967-68 AND 1973-74

(Rs crores at 1967-68 Prices)

Item	1967-68	1973-74
(1)	(2)	(3)
Agriculture and allied activities	14,973	18,998
Agriculture	14,480	18,290
Forestry and logging	344	511
Fishing	149	197
Mining, manufacturing and small enterprises	5,109	8,216
Mining and quarrying	283	454
Large-scale manufacturing	2,050	3,690
Small-scale manufacturing	1,456	2,023
Construction	1,123	1,692
Electricity, gas and water supply	197	357
Commerce, transport and communications	4,121	6,329
Transport and communications	1,102	1,666
Trade, storage, hotels and restaurants	3,019	4,663
Others	3,995	4,916
Net domestic product	28,198	38,459

A detailed discussion of the programmes designed to achieve these objectives appears in the succeeding chapters. Table 120 gives a few selected macro-economic projections for the Fourth Plan:

TABLE 120

MACRO-ECONOMIC PROJECTIONS: 1967-68 AND 1973-74

Item	*Unit*	*1967-68*	*1973-74*
(1)	(2)	(3)	(4)
National income	Rs crores at 1967-68 prices	27,933	38,100
Population (mid-year October 1)	million	514	596
Per capita income	Rs	543	639
Domestic saving as percentage of national income	per cent	8	12.6
Net investment as percentage of national income	per cent	11.5	13.8
Per capita private consumption	Rs	494	559

RESOURCE PROSPECTS FOR THE FOURTH PLAN

An analysis of the resource prospects of a development programme involves the consideration of two but interrelated problems, *viz.* the problem of resource generation and the problem of resource mobilisation. The Fourth Plan approach set out by the Planning Commission considers in broad outline the question of mobilisation of resources; but it leaves the problem of resource generation largely untreated, except to the extent of specifying broadly the required rate of saving.

However, if the development programmes have to be fulfilled with a substantial degree of monetary stability the problem of resource generation should not be overlooked. For, the provision of resources for the Plan only in terms of raising certain amount of resources through additional taxation and/or through profits of public enterprises or through loans and small-scale borrowing, etc. overlooks the important question whether the resources got through such measures would represent the transfer of saving of the public or not. In this way, it is not always correct to assume that such transfer of monetary resources would *ipso facto* represent the surplus resources of the community. Hence, concentration on the analysis of the question of resource mobilisation alone is likely to ignore important issues connected with resources availability of a development programme. An attempt is made in this article to lay bare some implications of the problem of resource generation required for fulfilling the development target of the Fourth Plan.

The resource prospects of a development plan in India largely hinges on the realisation of the rate of saving implied in the Plan target of economic development; for, the contribution of foreign savings has now necessarily to be relatively small.

The average rate of saving implied in the plan target of output growth of 5 per cent (compound) per annum is given by the Planning Commission in its Approach Note to be of the order of 12 per cent as opposed to the current rate of saving of 8 per cent. The arithmetic involved in such a calculation may now be briefly set out.

It is difficult at this stage to have a firm estimate of national income of the year 1968-69. However, assuming the national income at current prices in 1968-69 to be broadly of the order of Rs 30,000 crores, a 5 per cent (compound) rate of increase would mean an increase of about Rs 8,300 crores in the national income during the five-year period. Additional capital requirements necessary for this magnitude of output growth can be calculated on the basis of an assumed value of the capital coefficient. The past experience of planning in India shows that during the period between 1950-51 and 1964-65 national output increased by about Rs 7,000 crores (measured in 1960-61 prices), while in the same period the investment undertaken was of the order of Rs 21,000 crores. Thus in the past the capital coefficient had been of the order of 3:1. If we apply this capital-output ratio to the period of the Fourth Plan, the required increase in output of the order of Rs 8,300 crores would mean an investment of the order of Rs 25,000 crores. A favourable capital-output ratio valuing less than three would diminish the capital requirements. However, it would be rather unusual for our development programme to assume a ratio more favourable than three; for, as Jan Tinbergen pointed out 'it would seem often safe to assume that for development programmes a capital coefficient of four is needed. . . . The historical record of any given country will be the best guide, provided that it covers a sufficiently long period.'

Thus it is most plausible to regard an investment of Rs 24,000 to Rs 25,000 crores as the capital requirement of the Fourth Plan to realise the modest growth target of 5 per cent per annum. This amount of capital formation would entail a certain amount of total internal saving, and foreign saving to meet our development requirements during the Fourth Plan. In the Second and Third Plan around 25 per cent of the capital formation was financed through the use of external savings (that is savings other than current internal savings) in the form of drawing down of our foreign exchange reserves (which in fact represented our past savings) and the inflow of foreign capital. However, in view of the difficult balance of payments situation of the main aid-giving countries and the heavy back-log of repayment arising from our past borrowings, it would not be very much wide of the mark if we assume that only about 10 per cent of our net capital requirements can be met by the use of foreign savings. If this is the case, around Rs 22,500 crores or so will have to be found through internal saving.

Thus this simple arithmetical exercise reveals that on the average the Fourth Plan will be of the order of Rs 4,500 or so. Taking the national income in 1968-69 to be of the order of Rs 30,000 crores, and taking into account the fact that this income would gradually rise by Rs 8,300 or so during the Plan period, the average annual national income of the Plan period would be around Rs 34,000 crores.

Thus the required average annual quantum of internal saving would form about 13 per cent of the average national income. The question that needs further consideration is what does this amount of saving generation mean in terms of restraint over the level of consumption or the rate of growth of consumption of the community.

CONSUMPTION

In a way the resource prospects of the Fourth Plan largely hinge on the prospects of realising the required rate of internal saving. The realisation of the required rate of saving would require the restraint on the growth of consumption of the community, the degree of restraint required depending upon the rate of saving currently prevailing in the economic system. If the current rate of saving itself is high, the required rate of saving currently prevailing in the economic system is very easy to be realised. However, to the extent that the current rate of saving falls short of the required rate of saving, the effort needed by the community for putting restraint on consumption growth is *ipso facto* (proportionately) large.

As referred to earlier, the approach note of the Planning Commission puts the current rate of saving at about 8 per cent. If this figure of the current rate is accepted, the realisation of an internal rate of saving of about 13 per cent (or even 12 per cent as the Planning Commission estimates) would entail considerable effort on the part of the community. The magnitude of the necessary effort can be easily visualised if we note the quantitative impact on consumption growth which this would imply. In ascertaining this quantitative impact it will be necessary to make a distinction between the 'essential' and 'non-essential' parts of consumption. It is true that it is impossible to define 'essential' and 'non-essential' parts of consumption purely on logical grounds, for the distinction would involve considerations about the socio-cultural politico-economic objectives of the society. However, in our context following Kalecki's view we take the extent of non-essential consumption in 1965-66 to be of the order of 40 per cent. Kalecki's preliminary inquiry showed that 45 per cent of consumer expenditure can fall in the category of 'non-essential'; however in view of the fact that in Kalecki's inquiry carried out in 1960 the essentials were rather strictly defined, the non-essential consumption percentage have to be considerably lowered to meet the requirements of a more realistic definition of 'essentials'. This would mean that on less stricter definition of essentials, the non-essential consumption in 1960 may be taken to be of the order of one-third (33 per cent) of total consumption. However, in view of the fact that inflationary pressures have considerably mounted up between 1960-61 and 1968-69 (the wholesale price rising by 64 per cent between March 1961 and July 1968) and the period experienced shortages of food-grains which constitute the main item in essential consumption, the proportion of non-essential consumption in 1968-69 must be considerably higher than that in 1960-61. Hence, it would be more plausible to accept the figure of 40 per cent as the extent of non-essential consumption, as noted above.

If we assume this magnitude of non-essential consumption, the break-up of the national income in 1968-69 in terms of essential consumption, non-essential consumption and saving can be indicated; and as compared with these figures we can also note the corresponding behaviour of these magnitudes for the Fourth Plan average (median) year. In arriving at these figures, apart from the extent of non-essential consumption during 1968-69, we must also assume the growth rate of the essential consumption during the Fourth Plan. In view of the fact that the consumption standard of the mass of our population is still very low, and our population is likely to grow at the rate of about 2.5 per cent per annum during the Fourth Plan period, it would not be wide of the mark to provide for a four per cent annual growth rate in essential consumption. Thus, when for the average year of the Fourth Plan the national income is known, the saving ratio is fixed and the essential consumption is also derived, the necessary break-up for the Fourth Plan period comparable to that of the year 1968-69 is arrived at. It may be noted that in this analysis the quantum of 'non-essential' consumption is the residual which accommodates the desired rate of saving. In the Indian context where the standard of living of the masses is very low the restraint on the growth of non-essential consumption is the only way of achieving the desired rate of saving. Table 121 shows the comparative levels of national income, essential consumption, non-essential consumption and the quantum of saving for the year 1968-69 and for the average (mean) year of the Fourth Plan period.

TABLE 121

COMPARATIVE LEVELS FOR 1968-69 AND THE AVERAGE YEAR OF THE FOURTH PLAN (FIGURES IN CRORES OF RUPEES AT 1968-69 PRICES)

Variables	*1968-69*	*Average Year of the Fourth Plan*
National Income	30,000	34,000
Total Consumption	27,600	29,500
Essential Consumption	16,560	18,216
Non-essential Consumption	11,040	11,284
Saving	2,400	4,500

A glance at Table 121 shows that the problem of resource generation is substantially difficult for us. For, if we allow for some rise in the standard of living of the mass of population which has not received any substantial gains through the process of planning up till now, the essential consumption will have to grow more or less at the yearly rate of four per cent per year. If this is allowed for, the generation of necessary internal saving for the Fourth Plan development would imply that the non-essential consumption grows by less than one per cent per

year. In view of the fact that during the past, non-essential consumption seems to have grown almost at the rate of four per cent per year, restraining its growth rate within one per cent per year is bound to be an uphill task. The Planning Commission is very much silent on this aspect of resource prospects for the Plan. However, it is highly essential to consider ways and means by which such a high degree of restraint on the growth of consumption can be accomplished.

MEASURES

It must be noted that if we want to achieve growth with stability, the restraint on consumption growth which becomes necessary to generate enough surpluses for planned development, must be achieved through non-inflationary measures. What are the non-inflationary measures for restraining consumption growth? Conceptually these measures can be grouped together under three categories. In the first place, there will be certain measures which will induce the wealth-holders to restrain their non-essential consumption because of a change in their amount of wealth. These measures would entail that the Central Government has to use taxation of wealth substantially to mobilise its resources. At present the taxes on property and capital transactions contribute hardly one per cent of the total tax revenues of the Central Government. This position has to be drastically changed if the taxes on wealth are to be effectively used to restrain non-essential consumption of the community. Taxes on wealth can be a powerful instrument for restraining non-essential consumption to the extent that wealth-holders are interested in maintaining their wealth intact. These taxes thus can generate saving by restraining non-essential consumption, and also they can be instruments of transferring the part of the private saving to the public sector. It must be noted here that all tax measures which get revenue for the Government can transfer resources from the private sector to the public sector, however the resources so transferred may not always involve the generation of saving (surplus), for taxes can be paid by the private agencies without reducing their consumption. Hence for financing development programmes, what is needed is not merely an increase in the ratio of tax revenue to income but also the selection of those taxes which impinge on consumption.

Secondly, there will be some measures which will change the relative advantages of spending on non-essential consumption and saving, and thus, may induce the income-earners to substitute saving for non-essential consumption. Heavy excise duties of a prohibitionary character on certain items of non-essential consumption and the expenditure tax on high levels of expenditure are the tax measures which are likely to induce the desired type of substitution. On the other hand, measures which make investment of saving more attractive will also change the relative advantage in favour of saving. Thus, reduction in the very high marginal rates of income-tax and removal of restraints on profits earned from investments made in the desired channels are other measures which may also help in inducing the substitution in the desired direction.

Lastly, apart from these measures, non-essential consumption can also be curtailed or postponed for the time being if non-essential consumption goods are not available in the market or their use is prohibited by direct action. In this respect, war time experience of under-developed countries is highly significant; for, during the war time the non-availability of non-essential goods led to the postponement of consumption to such an extent that 15 to 20 per cent of output could be saved for being used for war purposes.

In summing up, we can say that for ascertaining the resource prospects of the Fourth Plan primary emphasis has to be given to the analysis of the problems of resource-generation rather than those of resource mobilisation. If we want that we should allow the per capita consumption of essential items of the mass of the people to go up slowly and, at the same time, carry out over development programmes, there is no alternative but to curb the high growth rate of non-essential consumption. The achievement of the modest growth target of the Fourth Plan would entail considerable sacrifices on the part of the community in the form of restraining to a great extent the growth of non-essential consumption. In order to achieve this objective orthodox type of tax system has to be replaced by a tax system which not only mobilises adequate resources for the public sector but also impinges on non-essential consumption. Also other direct measures will have to be taken so that the community postpones its non-essential consumption at least for the period of five years. Only if the resource problem of the Fourth Plan is considered on these lines will it be possible to achieve the necessary growth with stability.

APPENDIX 7

SOCIAL OBJECTIVES OF THE FOURTH PLAN (1969-74)

(*Reference: P. 393*)

The policy changes incorporated in the Fourth Plan Draft by the Planning Commission on the basis of the discussions in the Union Cabinet underline the need for 'more radical policies of income distribution' and creation of wider employment opportunities to achieve the object of social justice. The amendments in the Plan draft, which is currently under print, also refer to the need for 'purposeful implementation of the programmes by ensuring that the weakest are looked after first, that benefits of development are made to flow by planned investment in the underdeveloped regions and among more backward sections of the community'. *Per capita* income is expected to rise from Rs 543 in 1967-68 to Rs 639 by 1973-74, the last year of the Plan. But even the revised draft does not fix any target date for providing a minimum standard of living to the people. The addition incorporated in the draft in this respect says that with the expected growth in national income during the next two Plans, a reasonable level of *per capita* income may be attained at the end of 10 years. However, the consumption standards of the poor would still remain unduly low unless special efforts are made during this period to alter the existing pattern of distribution of incomes. 'The objective of national planning in India is not only to raise the national income or the *per capita* income but also to ensure that the benefit is evenly distributed, that disparities in income and living are not widened, but in fact narrowed,' the revised draft says. The process of economic development should be such as would not lead to social tensions, endangering the fabric of democratic society.

But the draft concedes that the Fourth Plan during which only a modest acceleration in growth seems feasible, can make no more than a limited impact on the massive poverty and disabilities of the people at the lower end of the scale. To achieve the objective of larger employment, the document stresses the need for greater investment, especially in the last three years of the Plan on labour-intensive schemes such as minor irrigation, soil conservation, ayacut and special area development, and road-building programmes. Reforms in the educational system are also urged 'to help the growth of initiative and enterprise, make for horizontal and vertical mobility, open up wider opportunities for employment and enable lowering of caste, class and regional barriers so that a purposeful change towards an egalitarian society can be brought about'. Summing up the Fourth Plan objectives, the draft says: 'In the last analysis, planned economic development should result in a more even distribution of benefits, a fuller life for an increasingly large number of people and the building up of a strong integrated democratic nation'.

THE NATIONAL CREDIT COUNCIL

Alongside the considerable progress in consolidating and strengthening the banking system and in adapting the credit system to the needs of the economy, the functioning of the credit system has revealed significant gaps. There have been complaints that several important sectors in the economy such as agriculture, small scale industry and exports have not received their due share. The problem has assumed added significance with the prospective increase in demand for credit both in range and depth, at a time when the deposit resources accruing the banks have been slowing down. Hence the Government, in order to align more closely the functioning of the banking and credit system of the country to the objectives and requirements of national economic development, has felt the need to review periodically the quantum of credit resources and to ensure an equitable and purposeful distribution of credit. To this end, a periodical assessment of the demand for bank credit and determination of priorities for lending and investment among various sectors of the economy are necessary. Although the Reserve Bank of India has, in the past, been giving directions to the banks in order to regulate credit policy, it was felt that it would be of advantage to have a forum where the relative claims for credit of different sectors could be discussed and priorities assessed. In order to provide such a forum and to assist the Government and the Reserve Bank of India in the task of allocating credit among the different sectors in conformity with the objectives of planning and social control over banks, the Government of India has set up a National Credit Council at the all-India level in pursuance of its resolution dated December 22, 1967.

The main functions of the Council will be periodically to:

(*a*) assess the demand for bank credit from the various sectors of the economy;

(*b*) determine priorities for the grant of loans and advances or for investment, having regard to the availability of resources and requirements of the priority sectors, in particular, agriculture, small-scale industries and exports;

(*c*) co-ordinate lending and investment policies as between commercial and co-operative banks and specialised agencies to ensure the optimum and efficient use of the overall resources; and

(*d*) consider other allied issues as may be referred to it by the Chairman or the Vice-Chairman.

With the new policy of implementing social controls, the National Credit Council was established in 1968 with the responsibility for apportioning funds among different avenues of production and business. The highest priority has been allotted to Agriculture in the Fourth Plan (except heavy industries and minerals), and arrangements are now on hand for adequately financing the small entrepreneur and the farmer. Agricultural inputs require heavy current investments, and all-out efforts are being made to extend facile credit to these segments through Co-operatives, and wherever they are not serviceable, through Credit corporations and Commercial Banks.

THE NATIONAL CREDIT COUNCIL AND FINANCING OF PRIORITY SECTORS

It was noted with satisfaction the progress made by the banks in the aggregate in meeting the targets laid down by the National Credit Council in respect of lending to agriculture and small-scale Industries. Credit limits to agriculture by 20 major banks rose from Rs 67 crores in June 1968 to Rs 244 crores at the end of March 1969. Similarly, credit outstandings rose in the same period from Rs 30 crores to Rs 97 crores. Credit limits to small-scale industries rose from Rs 322 crores to Rs 430 crores, while outstanding credit rose from Rs 167 crores to Rs 224 crores. It was also noted that not only were banks increasing their involvement in financing the priority sectors but were also making such assistance available at relatively favourable rates of interest.

APPENDIX 8

'QUICK' ESTIMATES OF NATIONAL INCOME FOR 1966-67

(*Reference: P. 271*)

The 'quick' estimates for 1966-67 place the net national product at constant prices at Rs 15,706 crores showing an increase of 1.7 per cent over the preliminary estimate for the previous year (1965-66) at Rs 15,441 crores. The estimate at current prices is placed at Rs 24,157 crores which is higher than the estimate for the previous year by 14.7 per cent.

In the year 1966-67, in spite of a marginal increase in the value of output of agriculture proper (i.e., cultivation), the net product at constant prices from agriculture including animal husbandry showed a slight decline because of a fall in livestock production due to recurrence of drought conditions. Although the non-agricultural sector showed some improvement, the overall increase in the net national product at constant prices was only 1.7 per cent over 1965-66. The *per capita* national product at current prices at Rs 481.5 registered an increase of 12.0 per cent over the previous year, but the *per capita* net national product at constant prices marginally declined by 0.7 per cent in 1966-67. In absolute terms, the *per capita* net national product at current prices increased by Rs 51.4 to Rs 481.5 but at constant prices it declined by Rs 2.2 to Rs 313.1. The index of the *per capita* net national product at current prices with 1960-61 as base registered a sharp increase from 138.7 for 1965-66 to 155.3 for 1966-67 while that at constant prices declined from 101.7 for 1965-66 to 101.0 for 1966-67.

The share of 'agriculture' sector in the net domestic product at constant prices was 42.2 per cent in 1966-67 as against 43.0 per cent in 1965-66. The contribution of this sector to the net national product at current prices, however, moved up from 48.1 per cent in 1965-66 to 49.4 per cent in 1966-67 (Table 122).

TABLE 122

COMPARISON OF MOVEMENT OF NET NATIONAL PRODUCT AT FACTOR COST AT CURRENT AND CONSTANT PRICES

	1960-61	1961-62	1962-63	1963-64	1964-65*	1965-66†	1966-67*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Net national product (Rs Crores)							
1. At current prices	13,453	14,315	15,179	17,563	20,424	21,064	24,157
2. At 1960-61 prices	13,453	14,037	14,329	15,101	16,219	15,441	15,706
Per capita net national product (Rs)							
3. At current prices	310.0	322.3	332.9	376.1	427.1	430.1	481.5
4. At 1960-61 prices	310.0	316.0	314.2	323.4	339.2	315.3	313.1
Index number of net national product with 1960-61 as base							
5. At current prices	100.0	106.4	112.8	130.6	151.8	156.6	179.6
6. At 1960-61 prices	100.0	104.3	106.5	112.2	120.6	114.8	116.7
Index number of *per capita* net national product with 1960-61 as base							
7. At current prices	100.0	104.0	107.4	121.3	137.8	138.7	155.3
8. At 1960-61 prices	100.0	101.9	101.4	104.3	109.4	101.7	101.0

APPENDIX 9

ECONOMIC SURVEY, 1969-70

(*Reference: P. 266*)

The National Council of Applied Economic Research, presenting an outlook of the economy during 1969-70, despite the emerging favourable trends, 'any attempt to force the pace and increase the level of public investment immediately is liable to be self-defeating'.

The Council is of the view that the order of public investment proposed in the annual Plan for 1969-70 'could just be feasible'. The total outlay proposed by the Planning Commission, Centre and States taken together is Rs 2,335 crores for the first year of the Fourth Plan.

Mr S. Bhoothalingam, Director-General of N.C.A.E.R., released the Council's study published in the first issue of its quarterly journal *Margin* at a Press conference today.

Replying to questions about resource mobilisation for next year, Mr Bhoothalingam said the Council had not specifically gone into the question but the thought that next year, a dose of deficit financing, as in the current year (Rs 290 crores), could be 'just tolerable' on the basis of the growth in national product envisaged for next year.

Mr Bhoothalingam felt that Government could certainly have a better chance in going to the market this year with a larger loan programme than last year (Rs 300 crores).

Asked for his views about taxation, direct and indirect, in the coming year, Mr Bhoothalingam said that there should be reform of the taxation system rather than any immediate attempt to step up the rates. 'If the economy begins to look up, it is the appropriate time when it will yield better results than in bad times'. The reform of the tax structure itself would bring in substantial money, he added. On the corporate sector, he had already expressed the view in his report to Government the taxation level should be reduced. He had, however, suggested a capital tax which was meant not for revenue but for other reasons.

The Council's study envisages production of 102 million tonnes of foodgrains, a seven to eight per cent increase in industrial output and a six per cent increase in national income during 1969-70.

While cautioning against forcing the pace of investment in 1969-70, the Council has said that 'the time is ripe for a fruitful search for avenues of useful and rewarding investment in all sectors. But as this process will necessarily take some time, one can expect investment to gather more momentum only after a year or so, by which time, if the economy progresses as envisaged, matching resources will be available'.

The Council says that the key to the outlook for next year still remains agriculture. Given average seasonal conditions, the production of foodgrains next

year will be 102 million tonnes and is likely to be of the order of 108 million tonnes in 1970-71. 'In all probability further imports of wheat beyond what has already been arranged or may not be required, while marginal imports of rice may still be found to be necessary'. The Council feels that the downward pressure of foodgrain prices should lead to larger selling to Government at the support prices already in force. This should facilitate procurement of foodgrains for public distribution and for building up a buffer stock.

The Council has emphasised that the effectiveness of price support should be fully established. 'Unless the farmer has confidence that at least the guaranteed support price will in fact be realised, future growth in production would be in jeopardy. The support prices should also be announced well in advance'.

In respect of cash crops, the Council notes that while there should be some increase in production with an average monsoon, in none of these crops like cotton, jute or oilseeds, has there been any significant change in the techniques of production.

On industrial production next year, the Council estimates a four or five per cent increase in the growth of demand for cotton textiles which have to compete with synthetic fabrics but in all other industries, 'conditions are ripe for a general increase in demand which in turn should stimulate production'. On the whole, industrial production may be expected to increase by seven to eight per cent.

The increase in national income might well be of the order of six per cent next year as against about three per cent in 1968-69. 'This should not cause any undue satisfaction or sense of complacency. To a large extent it merely represents making up for lost time'.

On exports and imports, the Council says that while the course of events in the current year have justified the earlier hope about encouraging growth of exports, efforts would have to be intensified and it would not be prudent to count on an expansion of the exports by more than five per cent.

While the decline in imports in the current year is well spread out all along the line and imports have been sufficient to meet requirements at current level, larger imports of raw materials, components and certain types of capital goods for replacement and balancing may be required next year. There is also scope for further reduction of imports in some areas, notably finished goods. If further imports of foodgrains are eliminated or drastically reduced, foreign exchange corresponding to the freight should be available for other purposes. The trade deficit should not be more next year in spite of increased imports because of reduced food imports and a step-up in exports.

Dealing with the prospects of savings and investment, the Council says it may look at first sight that the resumption of public investment on a substantially larger scale should now be possible. The national income, rising by, say 5.8 per cent in real terms may reach a level of Rs 30,500 crores at current prices in 1969-70. How much of it can be mobilised will depend on the saving rate. Saving is estimated to have declined from 11 per cent in 1965-66 to 8 per cent in 1967-68. While one may legitimately expect the saving rate next year to reach 10.5 to 11 per cent

two forces may work against this. First, a shift in the distribution of additional national income in favour of agriculture which supports a population with a relatively high propensity to consume and second, a rise in the basic standard of living in response to the long-term trend in expanding aspirations. Allowing for these contra-forces, one may expect the saving rate to reach a level of around 10 per cent in 1969-70.

At this rate, the total saving of the community in 1969-70 would be Rs 3,050 crores. Despite prospects of foreign aid continuing to remain uncertain, the net foreign aid next year taking into account past commitments might be Rs 400 crores. Total resources available for investment in the economy, both in public and private sectors, will therefore be about Rs 3,450 crores. Investment in the private sector even in recent bad years has been estimated to be around Rs 1,000 crores. Thus the upper limit for public investment can only be Rs 2,450 crores.

In fact, the Council adds, the figure is likely to be less because much of the additional savings in the rural sector are likely to go into direct investment in that sector and little will be available for mobilisation for use in any other sector in the immediate future. The order of public investment being contemplated in the annual plan for 1969-70 appears to be about Rs 2,250 crores. This could just be feasible.

While there are signs of an increase in private savings as reflected in an increase in time deposits, the demand of the private sector for working capital has not yet shown a corresponding increase. Financial institutions are also in a position to give greater support to investments in industry for expansion and development. 'It is not unusual in a period which represents emergence from a recession for liquidity of this kind to increase, and this in fact becomes the base for recovery. The time is therefore ripe for a fruitful search for avenues of useful and rewarding investment in all sectors'. But, the Council adds, this process will necessarily take some time and investment can be expected to gather more momentum only after a year or so.

About current year's performance, the Council says the achievement on the agricultural front by and large, gives cause for comfort, if not cheer. Data available for the first nine months of 1968 indicate that overall industrial output has gone up by 4.6 per cent. Industries like cotton textiles should have benefited by some increase in consumer demand during 1968. Among the intermediate goods, cement and chemicals seem to have made good progress during 1968. 'Continuing inadequacy of investment activity in industry as well as power projects is also reflected in the decline in output if steel castings, conductors, iron and steel, refractories and paints and varnishes. Several among the capital goods industries are not yet out of the woods. This is clearly attributable to the low investment activity in both the public and private sectors. As the emphasis in the coming year is also likely to be on utilising existing capacity, the revival of these industries may well be somewhat slower'.

On the basis of the expected rise of six per cent in industrial output and with agriculture not likely to contribute significantly to the growth of national income

because of the same level of foodgrain production, 'the best guess one can make today is that the national income in 1968-69 may rise by about three per cent as against the previous year's 9.1 per cent.

Regarding the budgetary and monetary policies of the current year, the Council concludes that the assumption that the deficit financing envisaged (Rs 290 crores) would be supportable and might not prove harmful had been proved correct. Since the budget provision for buffer stocks (Rs 140 crores) would not be fully utilised, the current year's deficit would be reduced. The recovery in the economy had been reflected in the growth of governmental revenue only to a small extent. Central revenue collections so far indicate budget estimates for excise duties and income and corporate taxes would be realised. Customs receipts may show a shortfall of Rs 100 crores. All the same, the budget deficit may not be more than envisaged and may indeed be somewhat less. This will largely depend on the States' overdrafts which till the middle of November had been of the order of about Rs 60 crores.

Expansion of credit facilities to the private sector to meet the needs of increased agriculture production and to promote recovery throughout the economy was the important characteristic of the monetary situation in 1968. It would be legitimate to detect in the growth of time deposits a sign that perhaps the savings capacity of the sections of the population which use banking facilities is beginning to increase.

On prices, the trends in 1968 have been more satisfactory compared to the previous year but there can be no room for complacency as the price level is still higher than in 1966-67.

ECONOMY POISED FOR UPSWINGING 1969

By all accounts, the wounds inflicted on the Indian economy by two years of successive drought and the 1965 India-Pakistan conflict have now been healed and the economy is poised for a steady onward push on the eve of the New Year. The process of recovery, which started in 1967 with a major boost in farm output, went full circle in 1968 with a revival in the other spheres of economic activity, notably industry and exports. The index of industrial production, which had receded by 0.5 per cent in 1967 is officially estimated to have increased by about 6 per cent in 1968. Expectations are that by the close of the current financial year, the index would show an annual increase of at least 7 per cent.

It is hoped that food output in 1968-69 may be even slightly more than the previous year's record of 95.6 million tonnes. The area under sugar-cane, cotton, jute, groundnut and other oilseeds is also reported to be higher this year compared with the previous year.

According to a Planning Commission estimate, national income in 1968-69 may show an increase of 6 per cent over the previous year. In 1967-68, national income had increased by 9.1 per cent. But this jump was from the low base reached in 1966-67. In this context, the expected increase of 6 per cent in national income this year is even more heartening.

Increased production in the farms and factories as well as the various export promotion measures taken by the Government helped raise the country's exports to a record level of about Rs 1,400 crores in 1968—as much as 10 per cent higher than the previous year. The Union Commerce Ministry expects this encouraging trend to continue in the New Year. In the first eight months of 1967, non-traditional items like steel, ores and engineering goods constituted only 37 per cent of the total exports, but in the corresponding period of 1968 this percentage rose to 42.

The year 1968 also witnessed a falling trend in India's imports, with the result that the country's balance of payments position improved considerably. In 1967-68, India's imports totalled Rs 1,900 crores, against Rs 1,198 crores of exports,—showing a trade gap of about Rs 700 crores. This gap, according to a Commerce Ministry estimate, may be narrowed by Rs 200 crores in 1968-69.

The foreign aid outlook on the eve of the New Year is also not as bleak as it appeared a few months ago. The recent visit of World Bank President Mr Robert McNamara helped lift the gloom on this account. The year 1968 was also remarkable in yet another respect: for the first time in many years, the general level of prices remained fairly stable. While in 1967, the index of wholesale prices recorded an increase of 14 per cent—the highest in a single year—in 1968 it remained more or less at last year's level. In November 1968, in fact, the index stood at 212, against 215.7 in the corresponding month of the previous year.

APPENDIX 10

CENTRE-STATES TRANSFERS OF FUNDS

(*Reference: P. 223*)

The Centre will transfer resources totalling Rs 1,845 crores to the States during 1969-70. But taking into account the State's repayment of about Rs 538 crores, the net accrual to the States would be Rs 1,307 crores. Although the net transfer to the States in the current year was higher by Rs 14 crores, the pattern provides for larger grants for both Plan and non-Plan expenditure than in 1968-69. The States will get in 1969-70 Rs 518.70 crores as their share of the Income tax, Estate Duty and Union Excise (Rs 490.98 crores in the current year), Rs 266.32 crores under grants-in-aid inclusive of an increase of Rs 36 crores as grants under Article 275 (1), as recommended by the Fifth Finance Commission, Rs 322.70 crores as loans and advances and Rs 615 crores as plan assistance (Rs 185 crores as grants and Rs 430 crores as loans). The assistance for Central and centrally sponsored plan schemes would be Rs 122.15 crores. The total debts of the States to the Centre are estimated at Rs 5,737.55 crores at the end of March 1970, as against Rs 3,970 at the end of 1965-66 the final year of the Third Plan.

Apart from the relief provided next year, the Centre is paying to certain States additional grants-in-aid of the order of Rs 50.10 crores towards amortisation of their market borrowings over the three year period 1966-67 to 1968-69. Out of this, Rs 33.40 crores on account of loans given in 1966-67 and 1967-68 to those States have been converted into grants. The balance of Rs 16.70 crores will be paid as grant-in-aid instead of as loan in the current year. The additional grants-in-aid amounting to Rs 50.10 crores by way of amortisation of State market loans have been given to Andhra Pradesh, Kerala, Madhya Pradesh, Mysore, Rajasthan and Tamil Nadu as recommended by the Fourth Finance Commission for the three year period ending March 1969. The Fifth Finance Commission is expected to consider this question for the subsequent period. The States and Union territories will pay the Centre Rs 249 crores by way of interest in 1969-70. This reflects the growing volume of loans advanced to them by the Centre. In the current year, interest receipt are estimated at Rs 227 crores.

The State's share in the Fourth Plan, earlier estimated at Rs 6,500 crores, has been slashed by the Planning Commission by about Rs 100 crores.

This is because of the States' failure to commit themselves to the additional resource mobilisation target of Rs 1,500 crores set for them.

The Commission is now likely to propose a total outlay of Rs 6,100 crores for the States in the draft Fourth Plan to be presented to the National Development Council in the latter half of the next month.

On the basis of its recent discussions with the States, the Commission has found that though several States have agreed to raise the requisite additional resources, the total commitment by the States is only Rs 1,000 crores.

The Commission has allowed a gap of about Rs 100 crores which, it thinks, some of the States would ultimately be able to bridge. The total additional resource mobilisation expected by the States thus comes to Rs 1,100 crores.

To this will be added the Central assistance of Rs 3,500 crores and the States' base-level resources estimated at Rs 1,500 crores. The total outlay on the States' Fourth Plans would thus come to Rs 6,100 crores.

PUBLIC SECTOR OUTLAY

With the Central Plan outlay fixed at Rs 8,300 crores, the total Public Sector plan outlay is now estimated at Rs 14,400 crores, against Rs 14,800 crores estimated earlier. The Central Plan outlay includes Rs 400 crores for the Union Territories Plans.

For the Private Sector, the Commission has estimated an investment of Rs 10,200 crores during the Fourth Plan.

The States are expected to ask for a higher share in the Fourth Plan at the forthcoming meeting of National Development Council mainly on two counts—an increase in the total Central assistance and rescheduling of the payments due from them against Central loans.

It is, however, unlikely that the Union Finance Ministry will yield any substantial ground on both these counts. In any case, diversion of additional Central resources to the States will correspondingly reduce the Centre's own Plan resources, at present put at Rs 8,300 crores.

But a more pertinent question the States may raise is why the cut in their share of the Fourth Plan be effected because of the gap in resources when the Centre itself has not firmly vouchsafed the raising of additional resources of Rs 2,500 crores implicit in the Central outlay.

Meanwhile, the Commission is going ahead with the drafting of the Fourth Plan on the basis of the reduced outlay for the States, leaving all controversies to be decided by the National Development Council.

APPENDIX 11

FIFTH FINANCE COMMISSION RECOMMENDATIONS

(*Reference: P. 316*)

About Rs 4,266 crores will get transferred from the Centre to the States during the five-year period from 1969-70 to 1973-74 both by way of their share of taxes and grants-in-aid, according to the recommendations of the Fifth Finance Commission. This amount compares with Rs 2,885.86 crores which accrued to the states under the award of the Fourth Finance Commission (Table 123). Under the Fifth Finance Commission's report, the States will receive Rs 3,628 crores as their share of taxes and Rs 637.85 crores as grant-in-aid. The Commission, headed by Mr Mahavir Tyagi, former Minister for Rehabilitation, has recommended that seven states need not get grant-in-aid under Article 275 of the Constitution in view of their comfortable financial position in 1973-74. These are: Bihar, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Punjab and Uttar Pradesh.

According to the Commission, at the end of 1973-74 these States will have an overall surplus as shown below. Bihar Rs 199.46 crores, Gujarat: Rs 158.99 crores, Haryana: Rs 79.88 crores, M.P.: Rs 15.09 crores, Maharashtra: Rs 419.29 crores, Punjab: Rs 117.22 crores, and U.P.: Rs 280.72 crores. The Finance Commission's recommendations cover the basis of distribution of income-tax, including arrears of advance tax accumulated till 1966-67 of Union excise levies and additional excises and the disbursement of grants-in-aid. The Commission has suggested an important change in the basis for determining the share of the States in respect of income-tax. While the Third and Fourth Finance Commissions had given a weightage of 80 per cent to population and 20 per cent to the factor of collection, the Fifth Commission has increased the former to 90 per cent with a view to helping States not industrially advanced. While appreciating the argument about the need to maintain continuity the Commission has justified its move for change on the ground of the new situation that had arisen in many States. The Commission has suggested the following proposals for distribution of Income-tax among the States:

(*a*) A Percentage of 2.5 should be for Union Territories.

(*b*) Of the balance 75 per cent should be given to the States on the basis proposed hereunder—Andhra: 8.01 per cent; Assam: 2.67 per cent; Bihar: 9.99 per cent; Gujarat: 5.13 per cent; Haryana: 1.73 per cent; Jammu and Kashmir: 0.79 per cent; Kerala: 3.83 per cent; Madhya Pradesh: 7.09 per cent; Maharashtra: 11.34 per cent; Mysore: 5.40 per cent; Nagaland: 0.08 per cent; Orissa: 3.75 per cent; Punjab: 2.55 per cent; Rajasthan: 4.34 per cent; Tamil Nadu: 8.18 per cent; U.P.: 16.01 per cent and West Bengal: 9.11 per cent.

The Commission has also gone into the problem of distributing the accumulation of advance tax till 1966-67. It has placed this amount at Rs 371.12 crores. It has expressed the view that 2.5 per cent of this amount should be for Union Territories and of the rest, 75 per cent could be given to the States. The Commission has ruled out payment of this whole amount by the Centre in one year in view of the possible strain 'on the ways and means position' of the Centre. 'It has said that this should be given in three equal instalments commencing from 1972. It also says that there should be no change in distribution pattern as laid down in the Constitution (distribution of revenues) order of 1965 in respect of the distribution of the net proceeds of income-tax in 1967-68 and 1968-69.

States' Share of Excise Revenue: Income to Decide Backwardness

The Fifth Finance Commission has recommended a change in the basis of distribution of Central income-tax and excise revenues to the States. While in the case of income-tax revenues population of a State will get a larger weightage of 90 per cent as against 80 per cent under the Fourth Finance Commission's award, in the case of Union excises, the Finance Commission has suggested slight alterations in the basis outlined by the previous Commission. The Fourth Finance body had said that eighty per cent weightage should be given to population and the rest given on the criteria of backwardness. The Fifth Commission has retained the first and amplified the basis for distribution in regard to the second criterion. It is now proposed that two-thirds of 20 per cent should be distributed among States having a lower than the All India average *per capita* income. The disbursement will be in proportion to the short-fall of the respective State income from the All India income multiplied by the population of the State. For this purpose, Nagaland's *per capita* income would be regarded as the same as that of Assam. The remaining one-third will be given on the basis of backwardness of the region. The distribution pattern recommended for Union excises is as follows:

(*a*) For 1969-70 to 1971-72 a sum equivalent to 20 per cent of the net proceeds of the Union excises on all articles levied and collected in that year, excluding special excises, regulatory duties and duties and cesses levied under special acts and earmarked for special purposes, should be paid from the Consolidated Fund of India to the States.

(*b*) During 1972-73 and 1973-74 a sum equivalent to 20 per cent of the net proceeds and levies and collected in the respective year, including special excises but excluding regulatory duties and duties and cesses levied under special acts and earmarked for special purposes.

The distribution will be: Andhra: 7.15 per cent; Assam: 2.5 per cent; Bihar: 13.81 per cent; Gujarat: 4.17 per cent; Haryana: 1.49 per cent; Jammu and Kashmir: 1.12 per cent; Kerala: 4.28 per cent; Madhya Pradesh: 8.48 per cent; Maharashtra: 7.93 per cent; Mysore: 4.65 per cent; Nagaland: 0.08 per cent; Orissa: 4.72 per cent; Punjab: 2.17 per cent; Rajasthan: 5.28 per cent; Tamil Nadu: 6.50 per cent; Uttar Pradesh: 18.82 per cent and West Bengal: 6.84 per cent.

Additional Excises

As for the scheme of additional excises on select commodities the Commission has suggested its discontinuance. Unless a more satisfactory agreement is reached between the Centre and the States on distribution of the proceeds it is not in favour of adding any new commodity to this scheme. The Commission has proposed that 2.05 per cent of the proceeds should be for Union Territories, 0.83 per cent for Kashmir and 0.09 per cent for Nagaland. Out of the remaining 97.03 per cent, the sums mentioned below should be given as the guaranteed amount, representing the revenues raised in the year, 1956-57: Andhra Rs 235.24 lakhs; Assam Rs 85.08 lakhs; Bihar Rs 130.16 lakhs; Gujarat Rs 323.45 lakhs; Haryana Rs 65.49 lakhs; Kerala Rs 95.08 lakhs; Madhya Pradesh Rs 155.17 lakhs; Maharashtra Rs 637.77 lakhs; Mysore Rs 100.10 lakhs; Orissa Rs 85.10 lakhs; Punjab Rs 96.07 lakhs; Rajasthan Rs 90.10 lakhs; Tamil Nadu Rs 285.34 lakhs; Uttar Pradesh Rs 575.81 lakhs and West Bengal Rs 280.41 lakhs. The balance, according to the Commission should be distributed as under: Andhra: 8.13 per cent;

TABLE 123

TAX SHARES AND GRANTS TO STATES: FOURTH AND FIFTH FINANCE COMMISSIONS

(Crores of Rupees)

	Fourth Commission	*Fifth Commission*		
		Total	*Taxes*	*Grants*
Andhra	234.18	339.25	274.24	65.01
Assam	144.96	195.21	93.24	101.97
Bihar	197.46	407.38	407.38	Nil
Gujarat	121.55	182.75	182.75	Nil
Haryana	39.19	59.61	59.61	Nil
J. and K.	66.10	106.84	33.16	73.68
Kerala	188.61	193.43	143.78	49.65
Madhya Pradesh	162.03	274.02	274.02	Nil
Maharashtra	260.38	383.66	383.66	Nil
Mysore	215.42	197.42	179.43	17.99
Nagaland	58.46	80.72	2.77	77.95
Orissa	231.85	250.68	146.01	104.67
Punjab	57.51	89.16	89.16	Nil
Rajasthan	130.41	221.65	170.16	51.49
Tamil Nadu	207.32	295.10	272 29	22.82
U.P.	373.02	620.12	620.12	Nil
West Bengal	197.41	369.03	296.41	72.62
Total	2,885.86	4,266.03	3,628.19	637.85

Assam: 2.47 per cent; Bihar: 8.40 per cent; Gujarat: 6.33 per cent; Haryana: 1.70 per cent; Kerala: 4.84 per cent; Madhya Pradesh: 6.34 per cent; Maharashtra: 13.89 per cent; Mysore: 6.00 per cent; Orissa: 3.13 per cent; Punjab: 2.98 per cent; Rajasthan: 4.42 per cent; Tamil Nadu: 9.63 per cent; Uttar Pradesh: 12.99 per cent and West Bengal: 8.75 per cent.

Grants-in-Aid

The accrual to States, barring some not entitled to it, between 1969-70 and 1973-74 will be as follows: Andhra: Rs 65.01 crores; Assam: Rs 101.97 crores; Kashmir: Rs 73.68 crores; Kerala: Rs 49.65 crores; Mysore: Rs 17.99 crores; Nagaland: Rs 77.95 crores; Orissa: Rs 104.67 crores; Rajasthan: Rs 51.49 crores; Tamil Nadu: Rs 22.82 crores and West Bengal: Rs 72.62 crores.

APPENDIX 12

THE ANNUAL PLAN: 1969-70

(*Reference: P. 239*)

The Rs 2,270.5 crores annual Plan for 1969-70 presented to Parliament recently by the Planning Commission, envisages a 5.5 per cent increase in national income against an increase of three per cent achieved last year. This is expected from a growth of five per cent in net output from agriculture and eight per cent from organised industry and mining. An important objective of the annual Plan is stated to be to break the stagnation in both public and private investment. The rate of investment in the economy as percentage of national income had declined from more than 13 per cent in 1965-66 to 11.8 per cent in1966-67 and further down to 11.3 per cent in 1967-68. Last year, the rate of investment had remained static at 11.3 per cent. The rate is expected to rise to 12 per cent this year. Of the total public sector outlay of Rs 2,270.5 crores envisaged in the annual Plan, the outlay on Central and Centrally sponsored schemes is Rs 1,272.9 crores, on State Plans Rs 932 crores and the outlay on the Union territories' Plans Rs 65.6 crores.

The States' outlay includes Rs 615 crores of Central assistance. The net foreign aid assumed this year for the plan is Rs 600 crores about the same as last year. Increased foreign exchange requirements this year are planned to be met by pushing up exports from Rs 1,360 crores in 1968-69 to Rs 1,450 crores in 1969-70—an increase of seven per cent. Last year's exports represented a rise of 13.5 per cent over the previous year's level. The public sector outlay for the current year is lower than the outlay of Rs 2,356.4 crores for the 1968-69 plan and the estimated expenditure of Rs 2,360.5 crores last year. But the present plan outlay does not include Rs 25 crores for buffer stocks and another Rs 25.5 crores shown as non-plan expenditure. The current plan also does not include any provision for meeting cash losses (estimated about Rs 45 crores), whereas last year's Plan included Rs 35 crores for this purpose.

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